

**Attachment 1**

# *Wilshire Consulting*

***Executive Summary of Performance  
Prepared for***

***California Public Employees' Retirement System***

***California Affiliate***

- ***Judges II***
- ***Long Term Care***
- ***Volunteer Firefighters***

***California Legislators' Fund  
Annuitants Healthcare Plan  
California Supplemental Income Plans***

***Fourth Quarter 2008***



1299 OCEAN AVENUE, SUITE 700  
SANTA MONICA, CA 90401  
T:310.451.3051 F:310.458.6936

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## Capital Market Overview

The fourth quarter of 2008 capped off a year of significant, historic milestones, mostly bad. The excitement of the US presidential election cycle was offset by the sobering reality of a deep, global recession that dragged world stock markets down to losses not seen since the dark days of the US Great Depression. US Real GDP shrank at an annual rate of -0.3% in the third quarter; this marked the second quarter of economic contraction in the last twelve-month period. The US unemployment rate rose to 6.7% by year-end as the economy gave up more jobs as the recession worsened. Commodities prices plummeted worldwide as the global slowdown slashed demand; crude oil futures closed the year at \$44.60, a loss of -55.7% for the quarter and -53.5% for the year, but a shocking -69.3% from their July 3 high. Consumer prices, as measured by the Consumer Price Index (All Urban Consumers), fell -3.9% in the fourth quarter. Faced with the realities of the recession, mindful of ugly corporate earnings results and declining consumer spending (especially entering the December holiday season), and fearful of the damage a sustained deflationary cycle could bring to the US economy, the Federal government took drastic action on multiple fronts. On October 4, now ex-President Bush announced a \$700 billion dollar aid package to the ailing US financial sector; the effectiveness of this action became questionable as credit market liquidity on the consumer level did not improve. The Federal Reserve took aggressive measures as well, lowering the target Federal Funds rate three times over the quarter. The last move set the target rate in a range of 0.0% to 0.25%, and in response most global central banks slashed their short-term interest rates. In related activity, the Fed announced its intent to bypass banks and inject capital directly into ailing companies in order to stabilize the economy. Given the volatility and uninspiring prospects of global stocks, investors rotated into the safety of highest-quality government bond issuance, pushing bond yields to unforeseen lows; for short periods, some short-term Treasury issues traded with negative yields, suggesting that investors valued safety enough to give up a small amount of return in exchange for capital preservation.

### U.S. Equity Market

The tale of the tape was indeed grim for fourth quarter 2008 and the whole year. The Dow Jones Wilshire 5000's quarterly loss of -22.9% was the worst since the fourth quarter of 1987, and its -37.2% twelve-month loss was its worst since 1931. The more investor-focused S&P 500 index's -22.0% quarterly and -37.0% annual drubbing underscored the lack of safe havens for stock investors. In a typical pattern for severe market downturns, large cap company stocks outperformed smaller company issues, especially in the more illiquid microcap segment (DJW Large Cap, -22.2% quarter, -37.1% year; DJW Small Cap, -27.0% quarter, -37.8% year; DJW Microcap, -30.5% quarter, -45.0% year). Despite the continued turmoil in financial company stocks, value-oriented stocks also outperformed growth-oriented issues (DJW Large Value, -21.2% quarter, -36.6% year; DJW Large Growth, -23.2% quarter, -37.5% year; DJW Small Value, -25.5% quarter, -33.9% year; DJW Small Growth, -28.6% quarter, -41.3% year). Turning to economic sectors of the S&P 500 (GICS Sector classification), the quarter was broadly dismal with one exception; although all sectors experienced negative performance, the Telecomm Services sector lost a relatively small -1.3%, thanks in part to strong performance by the larger national land- and cell-service providers AT&T, Qwest and Verizon. Utilities were a distant second-"best" performer at -11.0%. The worst-performing sector, unsurprisingly, was Financials at -37.1%; although a handful of smaller banks and insurance providers with scant investment banking operations avoided the worst damage, and a few saw their fortunes improve through takeover (Wachovia Corp's acquisition by Wells Fargo the most notable transaction), the unfolding debacle at Citigroup, as well as truly dismal earnings results at most global financial companies, continued to drag down the whole sector. Real Estate-related securities were slammed along with the rest of US stocks during the quarter and year as the economic headwinds of lower asset prices and tighter credit access slowed down the sector (DJW Real Estate Securities Index, -40.4% quarter, -39.8% year).



## **Fixed Income Market**

US Treasury bond yields took precipitous tumbles over the fourth quarter, benefiting investors holding highest-quality fixed income; low-quality corporate paper, on the other hand, saw spreads widen—in the case of low-grade high-yield debt, historically-high spreads. Looking at the US Treasury yield curve in detail, two-year yields dropped 132 basis points over the quarter to an almost-unprecedented 0.58%; thirty-year yields fell even further, sinking 170 b.p. to 2.59%. Long-term Treasuries, unsurprisingly, sprinted well ahead of shorter-term Treasury issuance (Barclays Capital 1-3 Year Treasury, 2.8% quarter, 6.7% year; Barclays Long Treasury, 18.7% quarter, 24.0% year). Although mortgage rates did move lower over the quarter and liquidity slowly returned to lending markets, mortgage and credit spreads relative to Treasuries widened over the quarter, reflecting investors' flight to safety (Barclays MBS, 4.3% quarter, 8.3% year; Barclays Credit, 4.0% quarter, -3.1% year; Barclays Government, 8.0% quarter, 12.4% year; Barclays Aggregate, 4.6% quarter, 5.2% year). High-yield paper suffered equity-like losses as spreads exploded past 1,500 b.p. (Barclays High Yield, -17.9% quarter, -26.2% year).

## **Non-U.S. Markets**

Non-US Global markets followed the example of US markets overall: Stocks suffered dramatic falls while high-quality debt enjoyed better returns. Currency movements punished US-based investors with European asset exposure, but rewarded dollar-based holders of Asian assets. The broad-based developed markets as measured by the MSCI EAFE Index fell for the quarter and year in local currency and US dollar terms, especially as US-based investors moved capital back to the relative safety of US Treasury debt (MSCI EAFE, net dividends, local currency: -18.5% quarter, -40.3% year; US dollar terms: -20.0% quarter, -43.4% year). European stocks outperformed Asian securities in local currency terms, but the US dollar rallied against European currencies during much of the fourth quarter while the yen surged against the dollar, reversing fortunes in dollar-based terms (MSCI Europe, net, local: -17.0% quarter, -38.9% year; USD: -22.8% quarter, -46.4% year; MSCI Pacific, net, local: -21.1% quarter, -42.5% year; USD: -13.9% quarter, -36.4% year). The collapse of global commodities' prices hit emerging market stocks especially hard (MSCI Emerging Markets, net, local: -22.0% quarter, -45.9% year; USD: -27.6% quarter, -53.3% year). Global bond markets also followed familiar patterns during economic downturns: Relatively good performance in investment-grade developed markets (Barclays Global Aggregate, USD: 5.3% quarter, 4.8% year) but pullbacks in emerging market debt (JP Morgan Emerging Markets Bond Plus, USD: -4.8% quarter, -9.7% year).



## Summary of Index Returns

For Periods Ended December 31, 2008

	<u>Quarter</u>	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>	<u>Ten Years</u>
<b>Domestic Equity</b>					
Standard & Poor's 500	-21.96%	-37.01%	-8.36%	-2.19%	-1.38%
Dow Jones Wilshire 5000	-22.85	-37.23	-8.44	-1.69	-0.64
Dow Jones Wilshire 4500	-26.49	-39.03	-9.52	-0.76	1.65
Dow Jones Wilshire Large Cap	-22.22	-37.06	-8.17	-1.67	-1.18
Dow Jones Wilshire Small Cap	-27.01	-37.76	-9.47	-0.99	3.37
Dow Jones Wilshire Micro Cap	-30.49	-44.98	-16.69	-7.27	5.09
<b>Domestic Equity</b>					
Dow Jones Wilshire Large Value	-21.21%	-36.62%	-7.69%	-1.14%	1.09%
Dow Jones Wilshire Large Growth	-23.18	-37.49	-8.86	-2.34	-3.68
Dow Jones Wilshire Mid Value	-24.54	-34.80	-9.36	-1.53	4.78
Dow Jones Wilshire Mid Growth	-27.07	-41.64	-10.20	0.10	0.53
Dow Jones Wilshire Small Value	-25.45	-33.92	-8.72	-0.86	5.80
Dow Jones Wilshire Small Growth	-28.61	-41.26	-10.28	-1.17	0.16
<b>International Equity</b>					
MSCI All World ex U.S.	-22.29%	-45.24%	-6.57%	3.00%	2.27%
MSCI EAFE	-19.95	-43.38	-7.35	1.66	0.80
MSCI Europe	-22.79	-46.42	-6.56	1.53	0.37
MSCI Pacific	-13.87	-36.42	-9.10	1.85	1.85
MSCI EMF Index	-27.56	-53.18	-4.62	8.01	9.31
<b>Domestic Fixed Income</b>					
Barclays Aggregate Bond	4.57%	5.24%	5.51%	4.65%	5.63%
Barclays Credit	4.03	-3.07	2.03	2.65	4.86
Barclays Mortgage	4.33	8.34	6.82	5.54	6.04
Barclays Treasury	8.76	13.74	8.53	6.35	6.27
Citigroup High Yield Cash Pay	-16.28	-24.74	-5.02	-0.68	2.50
91-Day Treasury Bill	0.22	2.06	3.96	3.25	3.46
<b>International Fixed Income</b>					
Citigroup Non-U.S. Gov. Bond	8.80%	10.11%	9.49%	5.97%	5.59%
Citigroup World Gov. Bond	8.81	10.89	9.29	6.06	5.90
Citigroup Hedged Non-U.S. Gov.	5.51	8.01	5.31	5.36	5.38
<b>Currency*</b>					
Euro vs. \$	-1.04%	-4.92%	5.63%	1.96%	1.70%
Yen vs. \$	17.12	23.24	9.20	3.40	2.21
Pound vs. \$	-19.34	-27.77	-5.74	-4.29	-1.45
<b>Real Estate</b>					
Dow Jones Wilshire REIT Index	-39.95%	-39.20%	-11.99%	0.65%	7.65%
Dow Jones Wilshire RESI	-40.40	-39.83	-12.40	0.62	7.33
NCREIF Property Index	-0.17	5.27	13.24	14.24	11.83





## Summary Review of Plans

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>
<b>TOTAL FUND for PERF</b>	<b>\$183.3 bil</b>	<b>-13.7%</b>	<b>-27.1%</b>	<b>-2.5%</b>	<b>3.0%</b>	<b>3.3%</b>
<i>Total Fund Policy Index</i>		-12.2%	-23.5%	-1.1%	3.4%	3.2%
<i>Actuarial Rate</i>		1.8%	7.8%	7.8%	7.8%	8.0%
<i>TUCS Public Fund Median</i>		-13.2%	-24.9%	-2.6%	2.0%	3.1%
<i>Wilshire Large Fund Universe Median <sup>1</sup></i>		-13.7%	-25.9%	-2.5%	2.4%	3.3%
<b>Affiliate Fund</b>						
<b>Judges II</b>	<b>\$266.2 mil</b>	<b>-14.5%</b>	<b>-26.6%</b>	<b>-3.8%</b>	<b>1.0%</b>	<b>1.9%</b>
<i>Weighted Policy Benchmark</i>		-13.5%	-24.6%	-3.0%	1.4%	2.2%
<b>Long Term Care ("LTC")</b>	<b>\$1,907.5 mil</b>	<b>-13.0%</b>	<b>-25.0%</b>	<b>-3.2%</b>	<b>1.2%</b>	<b>1.9%</b>
<i>Weighted Policy Benchmark</i>		-12.7%	-23.5%	-2.7%	1.3%	2.1%
<b>Annuitants Health Care</b>	<b>\$584.0mil</b>	<b>-18.3%</b>	<b>-30.7%</b>	<b>-.%</b>	<b>-.%</b>	<b>-.%</b>
<i>Weighted Policy Benchmark</i>		-18.1%	-31.4%	-.%	-.%	-.%
<i>TUCS Public Fund Median</i>		-13.2%	-24.9%	-2.6%	2.0%	3.1%
<b>Legislators' Fund</b>						
<b>LRS</b>	<b>\$111.2 mil</b>	<b>-6.9%</b>	<b>-17.6%</b>	<b>-1.0%</b>	<b>2.0%</b>	<b>3.3%</b>
<i>Weighted Policy Benchmark</i>		-6.0%	-14.7%	0.1%	2.9%	3.9%
<i>TUCS Public Fund Median</i>		-13.2%	-24.9%	-2.6%	2.0%	3.1%
<b>Supplemental Income Plans</b>	<b>\$14.0 mil</b>	<b>-14.5%</b>	<b>-29.6%</b>	<b>-4.8%</b>	<b>0.4%</b>	<b>-.%</b>
<i>Weighted Policy Benchmark</i>		-14.5%	-28.4%	-4.2%	0.6%	-.%

<sup>1</sup> The Total Fund Policy Index return equals the return for each asset class benchmark weighted at the current target asset allocation.



## Total Fund Review PERF Periods Ended 12/31/2008

	Market Value \$183.3 bil	Five-Year Ratios								
		Qtr	1 Year	3 Year	5 Year	10 Year	VaR <sup>13</sup>	PAR <sup>14</sup>	Sharpe <sup>15</sup>	Info <sup>15</sup>
<b>TOTAL FUND</b>										
Total Fund Policy Index <sup>2</sup>		-13.7%	-27.1%	-2.5%	3.0%	3.3%	\$17.9bil	0.5%	0.0	-0.3
Actuarial Rate		1.8%	7.8%	7.8%	7.8%	8.0%				
TUCS Public Fund Median		-13.2%	-24.9%	-2.6%	2.0%	3.1%				
Wilshire Large Fund Universe Median <sup>3</sup>		-13.7%	-25.9%	-2.5%	2.4%	3.3%				
<b>TOTAL GLOBAL EQUITY EX-AIM <sup>4</sup></b>	<b>72.6</b>	<b>-22.5%</b>	<b>-40.8%</b>	<b>-8.6%</b>	<b>-0.4%</b>	<b>0.4%</b>	<b>\$11.4 bil</b>	<b>0.3%</b>	<b>-0.2</b>	<b>-0.2</b>
Equity Policy Index <sup>5</sup>		-22.6%	-40.1%	-7.8%	-0.2%	0.1%			-0.2	0.0
TUCS Equity Median <sup>6</sup>		-22.9%	-37.0%	-8.5%	-1.3%	1.5%				
<b>TOTAL FIXED INCOME <sup>7</sup></b>	<b>44.6</b>	<b>2.3%</b>	<b>-2.8%</b>	<b>3.3%</b>	<b>4.1%</b>	<b>5.5%</b>	<b>\$2.2 bil</b>	<b>0.1%</b>	<b>0.1</b>	<b>-0.6</b>
Fixed Income Policy Index <sup>8</sup>		6.4%	5.7%	5.8%	5.4%	6.0%			0.3	0.0
TUCS Fixed Income Median		1.6%	1.0%	4.1%	3.8%	5.4%				
<b>TOTAL REAL ESTATE <sup>9</sup></b>	<b>21.1</b>	<b>-5.1%</b>	<b>-18.5%</b>	<b>4.4%</b>	<b>13.1%</b>	<b>11.7%</b>	<b>\$4.0 bil</b>	<b>0.1%</b>	<b>0.8</b>	
Real Estate Policy Benchmark		-3.0%	1.6%	11.9%	13.4%	11.4%			1.5	
TUCS Real Estate Median		-10.1%	-10.5%	5.8%	10.1%	10.1%				
<b>TOTAL AIM PROGRAM</b>	<b>24.0</b>	<b>-12.1%</b>	<b>-8.0%</b>	<b>11.8%</b>	<b>15.2%</b>	<b>10.2%</b>	<b>\$6.8 bil</b>	<b>0.1%</b>	<b>1.1</b>	
AIM Policy Index <sup>10</sup>		-22.2%	-35.5%	-5.4%	2.0%	3.7%			-0.1	
Custom Young Fund		2.1%	9.0%	14.9%	15.5%	4.7%				
<b>TOTAL INFLATION LINKED PROGRAM</b>	<b>3.6</b>	<b>-13.6%</b>	<b>-11.1%</b>	<b>-.%</b>	<b>-.%</b>	<b>-.%</b>	<b>\$0.6 bil</b>			
Policy Index		-2.0%	5.1%	-.%	-.%	-.%				
<b>CASH EQUITIZATION PROGRAM <sup>11</sup></b>	<b>15.2</b>	<b>-23.2%</b>	<b>-36.4%</b>	<b>-11.4%</b>	<b>-6.1%</b>	<b>-1.1%</b>				
Custom STIF <sup>12</sup>		0.4%	2.6%	4.3%	3.5%	3.6%				

<sup>2</sup> The Total Fund Policy Index return equals the return for each asset class benchmark weighted at the current target asset allocations.

<sup>3</sup> These returns represent preliminary numbers.

<sup>4</sup> Includes domestic equity, international equity, corporate governance, and MDP ventures. It does not include developed small cap, mid cap, and emerging transitions accounts. These amounts are reflected in total fund but are not included in any composite.

<sup>5</sup> The Equity Policy Index return equals the benchmark returns for the domestic equity and international equity segments weighted at policy allocation target percentages.

<sup>6</sup> Includes domestic and international equity.

<sup>7</sup> The Total Fixed Income Composite does not include LM Capital. LM Capital has been mapped to the domestic equity composite, effective 1Q2005, per CalPERS' direction.

<sup>8</sup> The Fixed Income Policy Index return equals the benchmark returns for domestic and international fixed income components weighted at policy allocation target percentages.

<sup>9</sup> Real estate total returns are net of investment management fees and all expenses, including property level operations expenses netted from property income. This method differs from GASB 31, which requires all investment expenses be identified for inclusion in the System's general purpose financial statements.

<sup>10</sup> The AIM Policy Index consists of the Custom Wilshire 2500 ex-tob +3% which is linked to the Custom Young Fund Universe and its previous benchmark historically.

<sup>11</sup> Cash is equitized using equity index futures in proportion to the Total Equity Policy Weights.

<sup>12</sup> The Custom STIF Policy Index is a custom index maintained by SSgA.

<sup>13</sup> VAR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value ((Expected Return - (1.65 X SD)) X MV).

<sup>14</sup> PAR (Performance at Risk) measures how much the portfolio might underperform its benchmark over a 12 month period in extreme cases. This PAR shows how much the portfolio might underperform in the worst 5% of 12 month periods. PAR is calculated using excess risk (tracking error) and market value (1.65 X TE X MV). The PAR for ILAC will be shown after 4 quarters of history.

<sup>15</sup> The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per unit of excess risk ventured. The Sharpe ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the total risk taken. The 5-year period was selected to provide sufficient data points for a meaningful calculation, but is still short enough to reflect the changes to the investment programs over the last few years.



## Total Fund Review for PERF (continued)

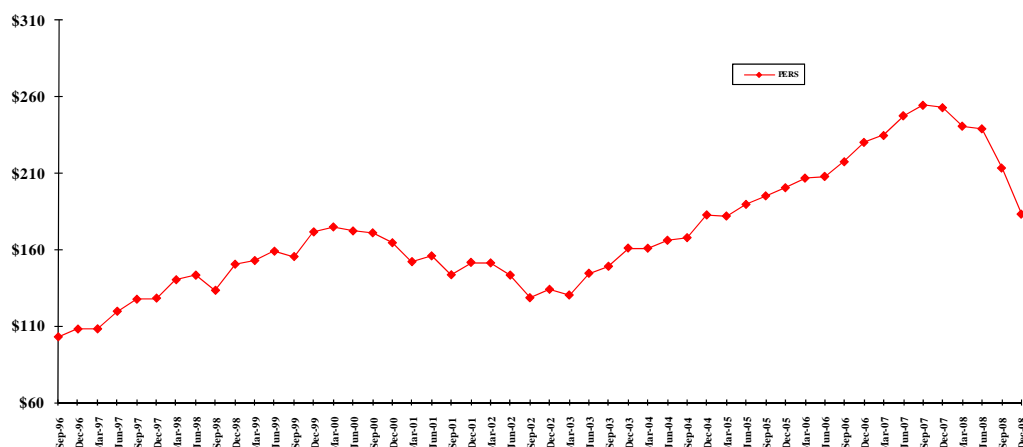
Periods Ended 12/31/08

### Total Fund Flow

(\$Millions)	Beg. Mkt Value	Net Cash Flow	Invest. Mgmt Fees	Invest. Gain/Loss	End. Mkt Value	Total Return
4Q08	213,519	(589)	(101)	(29,506)	183,323	(13.7)%

### Historical Growth of Assets

	2000	2001	2002	2003	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08
Market Value (\$bil)	164.6	151.7	134.1	161.0	182.8	200.6	230.3	253.0	240.9	239.2	213.5	183.3



### Asset Allocation

#### Asset Allocation: Actual versus Target Weights\*

Asset Class	Actual Asset Allocation Quarter Ending	Target Asset Allocation	Difference Ending
Equities	39.6%	56.0%	-16.4%
Fixed Income	24.3%	22.5%	1.8%
Real Estate	11.5%	10.0%	1.5%
ILAC	2.0%	2.0%	0.0%
AIM	13.1%	9.5%	3.6%
Cash Equivalents	8.3%	0.0%	8.3%

#### CalPERS Historical Asset Allocation

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08
% Equity	69	70	64	63	57	63	63	62	63	56	52	52	50	40
% AIM	-	-	-	-	5	5	5	5	6	8	9	10	12	13
% Fixed Income	26	24	29	27	28	24	24	25	23	27	27	25	24	24
% ILAC	-	-	-	-	-	-	-	-	-	1	1	2	2	2
% Real Estate	4	5	6	9	9	7	6	5	8	8	10	10	10	12
% Cash	1	1	1	1	1	1	1	3	1	1	1	1	1	8

\* Asset allocation targets are in the process of shifting to the new targets adopted by the Investment Committee as of January 2008. The percentages may not add to 100% since transition accounts are not included in the segments market value but is included in total fund.



**California Public Employees' Retirement System**  
**Total Fund Attribution**  
Total Composite  
Quarter Ended 12/31/08

Composite	Allocation			Returns			Total Fund Return Contribution				
	Policy (%)	Actual (%)	Difference (%)	Policy (%)	Actual (%)	Difference (%)	Strategic Policy (%)	Actual Allocation (%)	Active Mgmt (%)	Activity (%)	Weighted Return (%)
<b>Total Equity ex-AIM</b>	<b>56.0</b>	<b>50.0</b>	<b>-6.0</b>	<b>-22.60</b>	<b>-22.54</b>	<b>0.06</b>	<b>-12.66</b>	<b>0.94</b>	<b>0.03</b>	<b>-0.06</b>	<b>-11.74</b>
<b>U.S. Equity</b>	<b>36.1</b>	<b>28.1</b>	<b>-8.0</b>	<b>-22.87</b>	<b>-23.03</b>	<b>-0.16</b>	<b>-8.26</b>	<b>0.85</b>	<b>-0.04</b>	<b>0.67</b>	<b>-6.78</b>
Internal Passive (including DCF)	25.9	22.0	-3.9	-22.93	-22.88	0.05	-5.94	0.42	0.01	0.47	-5.04
Internal Enhanced	1.8	1.9	0.1	-22.87	-21.91	0.96	-0.41	-0.01	0.02	-0.01	-0.41
External Enhanced	3.8	0.7	-3.1	-22.26	-21.48	0.78	-0.85	0.31	0.01	0.38	-0.15
Active	1.8	1.1	-0.7	-22.65	-23.91	-1.26	-0.41	0.07	-0.01	0.08	-0.27
Corporate Governanace	1.8	1.0	-0.8	-19.04	-26.59	-7.55	-0.34	0.05	-0.08	0.10	-0.27
Long/Short	0.0	1.0	1.0	-22.53	-21.29	1.24	0.00	-0.11	0.01	-0.13	-0.22
MDP	0.8	0.6	-0.2	-23.00	-24.27	-1.27	-0.18	0.02	-0.01	0.02	-0.15
<b>Non-U.S. Equity</b>	<b>18.1</b>	<b>18.6</b>	<b>0.5</b>	<b>-21.43</b>	<b>-21.47</b>	<b>-0.04</b>	<b>-3.88</b>	<b>-0.05</b>	<b>-0.01</b>	<b>-0.06</b>	<b>-4.00</b>
Passive	8.7	12.3	3.6	-20.98	-20.99	-0.01	-1.83	-0.32	0.00	-0.44	-2.59
Enhanced	1.5	0.8	-0.7	-20.94	-21.37	-0.43	-0.31	0.06	0.00	0.08	-0.18
Active	3.5	2.7	-0.8	-22.28	-23.03	-0.75	-0.78	0.08	-0.02	0.10	-0.61
Emerging Markets	3.1	2.0	-1.1	-28.40	-30.19	-1.79	-0.88	0.18	-0.04	0.14	-0.59
Corporate Governanace	0.9	1.1	0.2	-21.14	-16.33	4.81	-0.19	-0.02	0.05	-0.02	-0.18
MDP	0.4	0.0	-0.4	-20.95	-17.03	3.92	-0.08	0.03	0.00	0.04	-0.01
Currency Overlay	0.0	0.0	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>RM ARS</b>	<b>1.8</b>	<b>3.3</b>	<b>1.5</b>	<b>2.92</b>	<b>-9.07</b>	<b>-11.99</b>	<b>0.05</b>	<b>0.23</b>	<b>-0.40</b>	<b>-0.19</b>	<b>-0.30</b>
<b>Total Fixed Income</b>	<b>23.5</b>	<b>23.7</b>	<b>0.2</b>	<b>6.37</b>	<b>2.30</b>	<b>-4.07</b>	<b>1.50</b>	<b>0.11</b>	<b>-0.97</b>	<b>-0.09</b>	<b>0.55</b>
<b>U.S. Fixed Income</b>	<b>21.5</b>	<b>21.5</b>	<b>0.0</b>	<b>6.18</b>	<b>1.88</b>	<b>-4.30</b>	<b>1.33</b>	<b>0.10</b>	<b>-0.93</b>	<b>-0.10</b>	<b>0.41</b>
Internal U.S. Bonds^	21.0	20.4	-0.6	6.18	5.04	-1.14	1.30	0.02	-0.23	-0.06	1.03
Special Investments^	0.8	0.5	-0.3	2.35	3.30	0.95	0.02	-0.05	0.00	0.04	0.02
Opportunistic^	0.7	0.7	0.0	-19.19	-45.30	-26.11	-0.13	0.00	-0.17	0.01	-0.30
<b>Non-U.S. Fixed Income</b>	<b>2.0</b>	<b>2.2</b>	<b>0.2</b>	<b>8.57</b>	<b>6.41</b>	<b>-2.16</b>	<b>0.17</b>	<b>0.04</b>	<b>-0.05</b>	<b>-0.02</b>	<b>0.14</b>
<b>Inflation Adjusted</b>	<b>1.5</b>	<b>2.0</b>	<b>0.5</b>	<b>-1.96</b>	<b>-13.55</b>	<b>-11.59</b>	<b>-0.03</b>	<b>0.00</b>	<b>-0.23</b>	<b>-0.01</b>	<b>-0.27</b>
<b>Real Estate</b>	<b>10.0</b>	<b>10.2</b>	<b>0.2</b>	<b>-2.98</b>	<b>-5.11</b>	<b>-2.13</b>	<b>-0.30</b>	<b>0.04</b>	<b>-0.22</b>	<b>-0.05</b>	<b>-0.52</b>
<b>AIM Program</b>	<b>9.0</b>	<b>12.2</b>	<b>3.2</b>	<b>-22.25</b>	<b>-12.07</b>	<b>10.18</b>	<b>-2.00</b>	<b>-0.43</b>	<b>1.24</b>	<b>-0.29</b>	<b>-1.48</b>
<b>Cash Equization</b>	<b>0.0</b>	<b>1.9</b>	<b>1.9</b>	<b>0.40</b>	<b>-23.20</b>	<b>-23.60</b>	<b>0.00</b>	<b>0.21</b>	<b>-0.45</b>	<b>-0.20</b>	<b>-0.45</b>
<b>Total Fund</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>-12.22</b>	<b>-13.73</b>	<b>-1.51</b>	<b>-12.22</b>	<b>0.86</b>	<b>-1.51</b>	<b>-0.86</b>	<b>-13.73</b>

The Total Fund Attribution displays the return contribution of each asset class to the total fund using the allocation to each program at the beginning of the quarter and this quarter's returns to determine if tactical allocation and active management within asset classes helped or hurt performance



## Total Fund Review for PERF (continued)

- ◆ The California Public Employees' Retirement System ("CalPERS, the System") generated a total fund return of -13.73%, for the quarter ended December 31, 2008. CalPERS' return can be attributed as follows:
  - 12.22% Strategic Policy Allocation
  - +0.86% Actual/Tactical Asset Allocation
  - 1.51% Activity/Timing
  - 0.86% Active Management
  - 13.73% Total Return**
- ◆ The total fund attribution table on the previous page displays the return contribution of each asset class to the total fund. This table will allow the Board to see if tactical allocation and active management within asset classes helped or hurt performance during the quarter.
  - Strategic Policy: The contribution to total return from each asset class, calculated as the percentage allocated to each asset class multiplied by the benchmark for that asset class.
  - Activity: The Activity contribution column is the difference between the "buy and hold" portfolio and the weighted return and would be caused by timing and size of cash flows (transfers, deposits, and withdrawals).
  - Actual Allocation: The return contribution during the quarter due to differences in the actual allocation from the policy allocation (i.e. the actual allocation to total equity was higher than the policy allocation). A positive number would indicate an overweight benefited performance and vice versa.
  - Active Management: The return contribution from active management. The number would be positive if the asset class outperformed the designated policy index and vice versa (i.e. the US fixed income segment outperformed its custom benchmark during the quarter and contributed positively to active management).
  - Actual Return: The actual return of the asset classes if allocations to them were static during the quarter. These returns will not match exactly with the actual segment returns since asset class allocations change during the quarter due to market movement, cash flows, etc.
- ◆ The Total Fund composite lagged its strategic policy for the quarter. However, the System has outperformed against its weighted policy for the 10-year period. The CalPERS total fund return has lagged its actuarial rate for the one year, three year, five year and ten year periods.

## Total Fund Review for PERF (continued)

### *Helped Performance:*

- ◆ **AIM Program:** The alternative investment program outperformed the total fund and equity policies and has continued to contribute favorably to the total fund policy for the one year, three year, five year, and ten year periods.
- ◆ **US Bond Exposure:** Bond markets rose as investors bought fixed income in a flight to quality. The Bond segment outperformed the total fund policy return as fixed income significantly outperformed equities. Over longer periods this segment has outperformed the total fund policy for all listed periods.
- ◆ **International Fixed Income:** The international bond segment also outperformed the total fund policy and has outperformed over all listed periods.
- ◆ **RM ARS Program:** The RM ARS Program outperformed the total fund policy. The program has outperformed the total fund policy for the one year, three year, and five year periods.
- ◆ **Real Estate:** The System's real estate segment outperformed the total fund policy.

### *Impeded Performance:*

- ◆ **U.S. Equity Exposure:** The System's U.S. equity asset class returned -23.0% which underperformed the total fund policy return. Domestic equities have underperformed the total fund policy return for the one year, three year, five year, and ten year periods.
- ◆ **International Equity Exposure:** The System's international equity program returned -21.5% and underperformed the policy index return for the quarter. International equities have underperformed the total fund policy for the one year, three year, five year and ten year periods.
- ◆ **Corporate Governance:** The System's corporate governance program underperformed the total fund policy for the quarter and all other listed periods.
- ◆ **Total Inflation Linked Program:** The total inflation linked program underperformed the total fund policy.



## Total Equity Review for PERF Periods Ended 12/31/08

### Equity Allocation

#### Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
US Equities	21.5	31.4%	-9.9
Non US Equities	18.1*	24.6	-6.5

### Equity Segment Performance

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR <sup>23</sup>	PAR <sup>24</sup>	5-year Sharpe Ratio <sup>25</sup>	5-year Info Ratio <sup>25</sup>
<b>Total Global Equity ex-AIM<sup>16</sup></b>	<b>72.6</b>	<b>-22.5%</b>	<b>-40.8%</b>	<b>-8.6%</b>	<b>-0.4%</b>	<b>0.4%</b>	<b>\$11.4 bil</b>	<b>0.3%</b>	<b>-0.2</b>	<b>-0.2</b>
Equity Policy Index <sup>17</sup>		-22.6%	-40.1%	-7.8%	-0.2%	0.1%			-0.2	0.0
Value Added		0.1%	-0.7%	-0.8%	-0.2%	0.3%				
<b>US Equity Composite</b>	<b>33.4</b>	<b>-23.0%</b>	<b>-38.1%</b>	<b>-8.9%</b>	<b>-2.1%</b>	<b>-0.8%</b>			<b>-0.4</b>	<b>-0.8</b>
PERS Wilshire 2500 Index		-22.9%	-37.5%	-8.5%	-1.9%	-1.0%			-0.4	0.0
Value Added		-0.1%	-0.6%	-0.4%	-0.2%	0.2%				
<b>Non-US Equity Composite</b>	<b>29.3</b>	<b>-21.5%</b>	<b>-44.0%</b>	<b>-6.9%</b>	<b>2.7%</b>	<b>1.9%</b>			<b>0.0</b>	<b>-0.2</b>
PERS Custom Index <sup>18</sup>		-21.4%	-44.1%	-6.6%	2.8%	2.1%			0.1	0.0
Value Added		-0.1%	0.1%	-0.3%	-0.1%	-0.2%				
<b>RM ARS Program</b>	<b>6.4</b>	<b>-9.1%</b>	<b>-19.5%</b>	<b>0.0%</b>	<b>3.5%</b>	<b>-.-%</b>			<b>0.0</b>	<b>-0.7</b>
Policy Index <sup>19</sup>		2.9%	10.0%	10.2%	9.0%	-.-%			4.5	0.0
Value Added		-12.0%	-29.5%	-10.2%	-5.5%	-.-%				
<b>Corporate Governance</b>	<b>3.4</b>	<b>-21.6%</b>	<b>-39.2%</b>	<b>-11.8%</b>	<b>-0.9%</b>	<b>5.7%</b>			<b>-0.3</b>	<b>-0.2</b>
Policy Index <sup>20</sup>		-20.0%	-37.5%	-9.3%	0.1%	0.7%			-0.2	0.0
Value Added		-1.6%	-1.7%	-2.5%	-1.0%	5.0%				
<b>Total Global Equity ex-AIM &amp; ex-Currency overlay<sup>21</sup></b>	<b>72.9</b>	<b>-23.0%</b>	<b>-41.4%</b>	<b>-8.7%</b>	<b>-0.7%</b>	<b>0.1%</b>				
Equity Policy Index <sup>22</sup>		-22.6%	-40.1%	-7.8%	-0.2%	0.1%				
Value Added		-0.4%	-1.3%	-0.9%	-0.5%	0.0%				

<sup>16</sup> Includes domestic equity, international equity, corporate governance, currency overlay, and the RM ARS program. The developed small cap, large and mid cap, and emerging transitions accounts are not included in global equity. In addition, there may be rounding differences.

<sup>17</sup> The Equity Policy Index return equals the benchmark returns for the domestic equity and international equity segments weighted at policy allocation target percentages.

<sup>18</sup> The PERS Custom Index currently represents the FTSE All World ex US Index. This Index is linked historically to its prior benchmarks.

<sup>19</sup> The RM ARS Policy consists of the Merrill Lynch 1-Year Treasury Note +5% and is linked historically to its prior benchmark.

<sup>20</sup> The Corporate Governance Index return equals the return for each manager's benchmark weighted at the current target asset allocation.

<sup>21</sup> Includes domestic equity, international equity, corporate governance, and the RM ARS program.

<sup>22</sup> The Equity Policy Index return equals the benchmark returns for the domestic equity and international equity segments weighted at policy allocation target percentages.

<sup>23</sup> VAR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value ((Expected Return - (1.65 X SD)) X MV).

<sup>24</sup> PAR (Performance at Risk) measures how much the portfolio might underperform its benchmark over a 12 month period in extreme cases. This PAR shows how much the portfolio might underperform in the worst 5% of 12 month periods. PAR is calculated using excess risk (tracking error) and market value (1.65 X TE X MV).

<sup>25</sup> The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per unit of excess risk ventured. The Sharpe ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

\* Does not include developed small cap, developed large- mid cap, and emerging market transactions accounts.



## Total Equity Review for PERF (continued)

### Comments Regarding Recent Equity Segment Performance

#### *Helped or Equaled Performance:*

- ◆ **Internal PERS 2500:** The System's internal PERS 2500 index fund equaled the equity policy index. The fund's performance matched that of its custom benchmark which is consistent with its objective.
- ◆ **RM ARS Program:** The System's RM ARS program outperformed the equity policy for the quarter.
- ◆ **Environmental Domestic Equity:** The environmental domestic equity outperformed against the total equity policy for the quarter.
- ◆ **International Equity Exposure:** The System's international equity managers outperformed against the equity policy for the quarter but and outperformed for the one year, three year, five year, and ten year periods.
- ◆ **Internal International Equity Index:** The System's internally managed international equity index outperformed the equity policy index over the quarter. The index has added value over longer periods.
- ◆ **Corporate Governance:** The corporate governance program outperformed against the total equity policy index and has outperformed over the ten year period.
- ◆ **International Equity MDP:** The international equity MDP program outperformed the total equity policy this quarter.
- ◆ **International Environmental Program:** The international environmental program outperformed the total equity policy this quarter

#### *Impeded Performance:*

- ◆ **Emerging Markets Exposure:** The System's emerging market managers underperformed the equity policy index. The emerging markets segment outpaced the total equity return for the three year and five year periods.
- ◆ **Dynamic Completion Fund (DCF):** The DCF portfolio underperformed the equity policy return for the quarter and the one year, three year, five year, and ten year periods.
- ◆ **Domestic Equity MDP:** The System's domestic MDP program underperformed against the total equity policy.
- ◆ **Domestic Internal Micro-Cap Exposure:** The internal micro-cap portfolio underperformed the equity policy index over the quarter, one year, three year, and five year periods.



## Total Equity Review for PERF - U.S. Equity Manager Performance

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10-Year</u>	<u>Date</u>
<b>US Equity Composite<sup>26</sup></b>	<b>33.4</b>	<b>-23.0%</b>	<b>-38.1%</b>	<b>-8.9%</b>	<b>-2.1%</b>	<b>-0.8%</b>	<b>12/79</b>
PERS Wilshire 2500 Index		<b>-22.9%</b>	<b>-37.5%</b>	<b>-8.5%</b>	<b>-1.9%</b>	<b>-1.0%</b>	
Value Added		-0.1%	-0.6%	-0.4%	-0.2%	0.2%	
<b>Total Internal Equity<sup>26</sup></b>	<b>27.6</b>	<b>-22.9%</b>	<b>-37.6%</b>	<b>-8.5%</b>	<b>-1.9%</b>	<b>-0.8%</b>	<b>6/88</b>
Internal PERS 2500	23.8	-22.6%	-37.1%	-8.2%	-1.7%	-0.8%	12/91
PERS Wilshire 2500		-22.9%	-37.5%	-8.5%	-1.9%	-1.0%	
Tracking Error		0.3%	0.4%	0.3%	0.2%	0.2%	
Dynamic Completion Fund (DCF)	1.3	-24.7%	-37.1%	-8.2%	-2.3%	-0.7%	9/98
Custom Benchmark		-23.1%	-35.8%	-7.5%	-1.8%	-0.8%	
Tracking Error		-1.6%	-1.3%	-0.7%	-0.5%	0.1%	
Domestic Enhanced Index Strategy	1.3	-21.9%	-38.3%	-8.7%	-0.8%	-.%	3/01
PERS Wilshire 2500		-22.9%	-37.5%	-8.5%	-1.9%	-.%	
Value Added		1.0%	-0.8%	-0.2%	1.1%	-.%	
Internal Domestic Fundamental	0.7	-24.2%	-40.0%	-.%	-.%	-.%	6/06
PERS Wilshire 2500		-22.9%	-37.5%	-.%	-.%	-.%	
Value Added		-1.3%	-2.5%	-.%	-.%	-.%	
Internal Microcap	0.4	-30.3%	-45.6%	-15.4%	-6.2%	-.%	9/03
Custom Benchmark		-31.5%	-48.8%	-17.6%	-7.4%	-.%	
Tracking Error		1.2%	3.2%	2.2%	1.2%	-.%	
<b>Total External Domestic Equity</b>	<b>4.5</b>	<b>-22.9%</b>	<b>-39.8%</b>	<b>-10.3%</b>	<b>-3.0%</b>	<b>-0.4%</b>	<b>6/87</b>
Total Active External Mainstream	0.9	-23.9%	-43.9%	-11.2%	-3.6%	-1.4%	6/98
Total Domestic Ext. Enhanced	0.8	-21.5%	-36.1%	-9.2%	-.%	-.%	9/04
Custom Benchmark		-22.3%	-37.5%	-8.7%	-.%	-.%	
Value Added		0.8%	1.4%	-0.5%	-.%	-.%	
Long/Short	1.4	-21.3%	-36.7%	-.%	-.%	-.%	6/07
Custom Benchmark		-22.5%	-37.8%	-.%	-.%	-.%	
Value Added		1.2%	1.1%	-.%	-.%	-.%	
FIS Fund of Funds	0.2	-23.2%	-.%	-.%	-.%	-.%	3/08
Custom Benchmark		-23.4%	-.%	-.%	-.%	-.%	
Value Added		0.2%	-.%	-.%	-.%	-.%	
Leading Edge Fund of Funds	0.2	-25.4%	-.%	-.%	-.%	-.%	3/08
Custom Benchmark		-24.5%	-.%	-.%	-.%	-.%	
Value Added		-0.9%	-.%	-.%	-.%	-.%	
Total Domestic Equity MDP	0.7	-24.6%	-40.6%	-10.0%	-2.4%	-.%	12/00
Total Domestic Equity MDP II	0.5	-26.2%	-41.7%				3/07
<b>Environmental Domestic Equity</b>	<b>0.2</b>	<b>-21.1%</b>	<b>-36.2%</b>	<b>-9.3%</b>	<b>-.%</b>	<b>-.%</b>	<b>3/05</b>
Custom Benchmark		-22.5%	-37.7%	-8.8%	-.%	-.%	
Value Added		1.4%	1.5%	-0.5%	-.%	-.%	
<b>Domestic Equity Active Manager Program<sup>27</sup></b>	<b>4.6</b>	<b>-23.1%</b>	<b>-38.7%</b>	<b>-9.7%</b>	<b>-2.9%</b>	<b>-1.0%</b>	<b>6/98</b>
Active External Managers + Enh + DCF		-22.9%	-37.5%	-8.5%	-1.9%	-1.0%	
PERS Wilshire 2500		-22.9%	-37.5%	-8.5%	-1.9%	-1.0%	
Value Added of Active Mgr Program		-0.2%	-1.2%	-1.2%	-1.0%	0.0%	

<sup>26</sup> Composites may not add up exactly due to rounding. The US Equity Composite includes LM Capital which is a fixed income manager that has been allocated to the equity segment. And Atlantic, Smith Breeden, and WAMCO which had their assets move internally.

<sup>27</sup> This composite combines components listed above to present a comparison of the total domestic equity active manager program versus its benchmark.





## Total Equity Review for PERF - International Equity Manager Performance

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10-Year</u>	<u>Date</u>
<b>Non-US Equity Composite</b> <sup>28</sup>	<b>29.4</b>	<b>-21.5%</b>	<b>-44.0%</b>	<b>-6.9%</b>	<b>2.8%</b>	<b>1.9%</b>	<b>6/89</b>
<i>PERS Custom Index</i> <sup>29</sup>		-21.4%	-44.1%	-6.6%	2.8%	2.1%	
<i>Value Added</i>		-0.1%	0.1%	-0.3%	0.0%	-0.2%	
<b>Total Intl Equity ex-AIM &amp; ex-Currency overlay</b> <sup>32</sup>	<b>29.6</b>	<b>-22.6%</b>	<b>-45.3%</b>	<b>-6.9%</b>	<b>2.8%</b>	<b>2.1%</b>	
<i>Custom Benchmark</i> <sup>33</sup>		-21.8%	-39.6%	-2.1%	8.1%	4.9%	
<i>Value Added</i>		-0.8%	-5.7%	-4.8%	-5.3%	-2.8%	
<b>Int'l Active Equity + MDP + Enh</b>	<b>4.6</b>	<b>-22.8%</b>	<b>-46.8%</b>	<b>-8.3%</b>	<b>1.7%</b>	<b>1.4%</b>	<b>3/89</b>
<i>Custom Benchmark</i>		-22.3%	-45.3%	-6.6%	2.8%	2.0%	
<i>Value Added</i>		-0.5%	-1.5%	-1.7%	-1.1%	-0.6%	
<b>Int'l Emerging Markets</b>	<b>2.9</b>	<b>-30.2%</b>	<b>-52.4%</b>	<b>-6.8%</b>	<b>8.5%</b>	<b>-.-%</b>	<b>9/02</b>
<i>CalPERS FTSE All Emerging Index (with Tobacco)</i>		-28.4%	-52.9%	-6.0%	7.9%	-.-%	
<i>Value Added</i>		-1.8%	0.5%	-0.8%	0.6%	-.-%	
<b>Total Int'l MDP</b> <sup>30</sup>	<b>0.1</b>	<b>-17.0%</b>	<b>-36.8%</b>	<b>-3.6%</b>	<b>3.2%</b>	<b>-.-%</b>	<b>6/00</b>
<b>Fundamental Developed Intl</b>	<b>0.7</b>	<b>-21.0%</b>	<b>-43.9%</b>	<b>-.-%</b>	<b>-.-%</b>	<b>-.-%</b>	<b>3/07</b>
<i>CalPERS FTSE Developed Index</i>		-21.0%	-43.6%	-.-%	-.-%	-.-%	
<i>Value Added</i>		0.0%	-0.3%	-.-%	-.-%	-.-%	
<b>Structured Emerging Markets</b>	<b>0.1</b>	<b>-27.3%</b>	<b>-50.1%</b>	<b>-.-%</b>	<b>-.-%</b>	<b>-.-%</b>	<b>6/07</b>
<i>CalPERS FTSE All Emerging (w/o Tobacco)</i>		-28.1%	-51.3%	-.-%	-.-%	-.-%	
<i>Value Added</i>		0.8%	1.2%	-.-%	-.-%	-.-%	
<b>Fundamental Emerging Markets</b>	<b>0.1</b>	<b>-27.0%</b>	<b>-49.9%</b>	<b>-.-%</b>	<b>-.-%</b>	<b>-.-%</b>	<b>6/07</b>
<i>CalPERS FTSE All Emerging (w/o Tobacco)</i>		-28.1%	-51.3%	-.-%	-.-%	-.-%	
<i>Value Added</i>		1.1%	1.4%	-.-%	-.-%	-.-%	
<b>External International Equity Transition</b>	<b>0.1</b>						
<b>Internal International Equity</b> <sup>31</sup>	<b>19.1</b>	<b>-21.0%</b>	<b>-43.6%</b>	<b>-6.7%</b>	<b>-.-%</b>	<b>-.-%</b>	<b>6/05</b>
<i>Custom Benchmark</i>		-21.0%	-43.6%	-6.8%	-.-%	-.-%	
<i>Tracking Error</i>		0.0%	0.0%	0.1%	-.-%	-.-%	
<b>Environmental International</b>	<b>0.1</b>	<b>-21.2%</b>	<b>-42.2%</b>	<b>-.-%</b>	<b>-.-%</b>	<b>-.-%</b>	<b>3/06</b>
<i>Custom Benchmark</i>		-20.9%	-43.5%	-.-%	-.-%	-.-%	
<i>Value Added</i>		-0.3%	1.3%	-.-%	-.-%	-.-%	

<sup>28</sup> Composite may not add up exactly due to rounding. The Non-US Equity Composite includes the effect of the currency hedging program, but the benchmark is unhedged. The "Total Intl Equity ex-AIM & ex-Currency overlay" composite at the bottom of the page presents the results without the effects of the currency hedge.

<sup>29</sup> The PERS Custom Index currently represents the FTSE All World ex US Index. This Index is linked historically to its prior benchmarks.

<sup>30</sup> Total MDP market value is also included in the International Active Equity + MDP Composite.

<sup>31</sup> The currency overlay portfolios' values are included in the international equity index. This account is unitized and is included in multiple plans.

<sup>32</sup> Includes international equity ex-currency overlay.

<sup>33</sup> The custom benchmark excludes currency overlay.



### RM ARS Program Review for PERF Period Ended 12/31/08

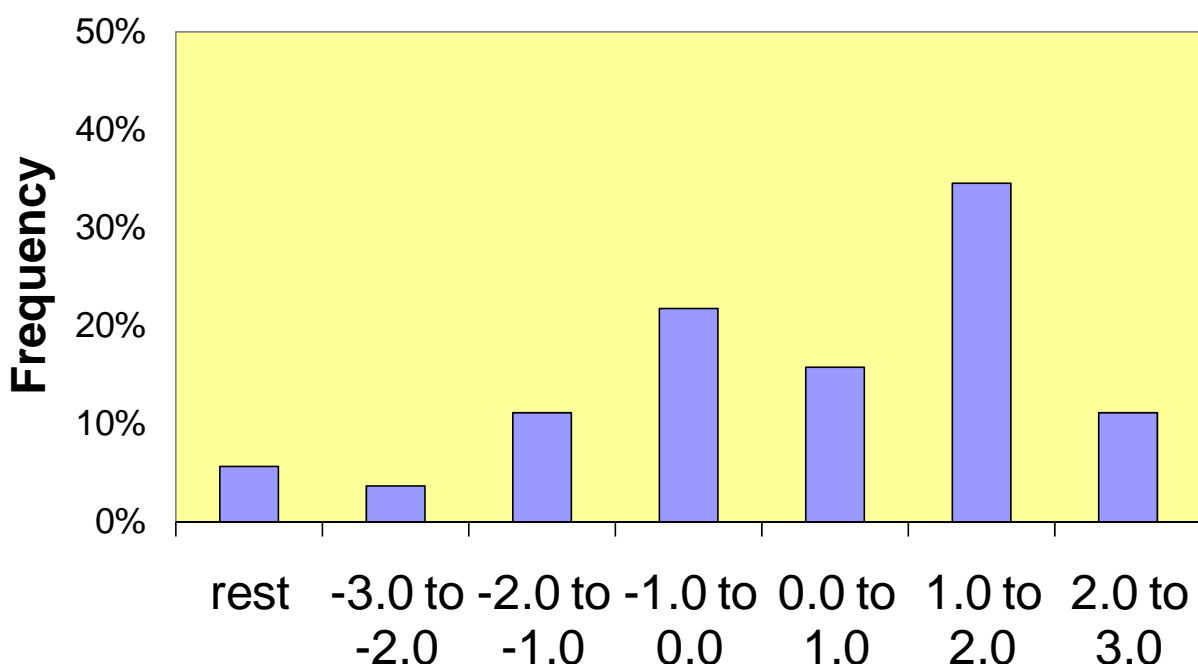
	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>5-Year</u> <u>Info</u> <u>Ratio</u> <sup>35</sup>	<u>5-Year</u> <u>Up</u> <u>Capture</u> <u>Ratio</u>	<u>5-Year</u> <u>Down</u> <u>Capture</u> <u>Ratio</u>	<u>5-Year</u> <u>Sharpe</u> <u>Ratio</u> <sup>36</sup>	<u>5-Year</u> <u>Sortino</u> <u>Ratio</u> <sup>36</sup>
Total RM ARS Program	6.4	-9.1%	-19.5%	0.0%	3.5%	-0.7	0.4	0.7	0.0	0.1
Policy Index <sup>34</sup>		2.9%	10.0%	10.2%	9.0%					
Value Added		-12.0%	-29.5%	-10.2%	-5.5%					
Total Direct Investments	5.1	-10.6%	-21.9%	-0.5%	3.3%					
Total Fund of Funds	1.4	-2.9%	-9.0%	0.8%	-.%					
ML 1-Year Treasury Note Index + 5% Index		2.9%	10.0%	10.2%	8.8%					
HFRI Fund of Funds Index		-9.5%	-20.0%	-0.9%	2.2%					

### RM ARS Program Characteristics Period Ended 12/31/08

#### Rolling Correlations vs. Index

<u>Percentage</u> <u>of positive</u> <u>Months</u>	<u>Beta vs.</u> <u>S&amp;P 500</u>	<u>DJ</u> <u>W5000</u> <sup>20</sup>	<u>PERS</u> <u>2500</u> <sup>20</sup>	<u>Barlcays Long</u> <u>Liability</u> <u>Index</u>	<u>FTSE AW</u> <u>X US</u> <sup>20</sup>
62%	0.3	0.5	0.5	-0.3	0.6

### CalPERS- RM ARS (net) Monthly Histogram April 2001 to December 2008



<sup>34</sup> The RM ARS Policy consists of the Merrill Lynch 1-Year Treasury Note + 5% and is linked historically to its prior benchmark.

<sup>35</sup> The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per risk ventured.



## RM ARS Program Review for PERF

- ◆ **Beta vs. S&P 500:** This measures the amount of stock market risk in the portfolio. A beta of 1.0 would indicate that the portfolio's performance should closely track the stock market, while a beta higher than 1.0 implies greater-than-market risk and possibly leverage. The portfolio's beta is 0.3 which implies a semi-weak relationship to stock market return, which is appropriate for this program.
- ◆ **Correlation vs. various indices:** We have calculated the historical correlation between the RM ARS and CalPERS' other main asset classes. Over a market cycle, the RM ARS should function independently of the other asset classes and have a low correlation to directional movements in all other asset classes. Since inception, the performance of both the RM ARS and the stock market has been generally positive, resulting in a moderately high correlation.
- ◆ **Histogram:** The RM ARS is designed to generate small amounts of return on a consistent basis. This chart shows the frequency of monthly performance results. A significant number of outlying monthly performance returns would indicate insufficient risk controls. We believe that the distribution of monthly returns is as expected.

## Corporate Governance Review

	<u>Market</u> <u>Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Date</u>
<b>Total Corporate Governance</b>	<b>3.4</b>	<b>-21.6%</b>	<b>-39.2%</b>	<b>-11.8%</b>	<b>-0.9%</b>	<b>12/98</b>
<i>Policy Index</i>		-20.0%	-37.5%	-9.3%	0.1%	
<i>Value Added</i>		-1.6%	-1.7%	-2.5%	-1.0%	
<b>Total Domestic Corporate Governance</b>	<b>1.6</b>	<b>-26.6%</b>	<b>-35.8%</b>	<b>-12.5%</b>	<b>-2.3%</b>	<b>12/98</b>
<i>Policy Index</i>		-19.0%	-32.0%	-6.1%	-0.6%	
<i>Value Added</i>		-7.6%	-3.8%	-6.4%	-1.7%	12/98
<b>Total Int'l Corporate Governance</b>	<b>1.8</b>	<b>-16.3%</b>	<b>-41.7%</b>	<b>-10.9%</b>	<b>0.5%</b>	<b>12/98</b>
<i>Policy Index</i>		-21.1%	-42.8%	-12.6%	0.5%	
<i>Value Added</i>		<b>4.8%</b>	<b>1.1%</b>	<b>1.7%</b>	<b>0.0%</b>	<b>12/98</b>

- ◆ The System's total corporate governance program underperformed its objective. The domestic corporate governance underperformed as the US equity markets underperformed the developed world markets.

<sup>36</sup> The Sortino Ratio is measure of a risk-adjusted return of an investment asset. It is an extension of the Sharpe Ratio. While the Sharpe ratio takes into account any volatility, in return of an asset, Sortino ratio differentiates volatility due to up and down movements. The up movements are considered desirable and not accounted in the volatility. The Sharpe ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.



## Total Fixed Income Review for PERF

### Periods Ended 12/31/08

#### Fixed Income Allocation

#### Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
US Fixed Income	22.0%	20.5%	+1.5%
Non US Fixed Income	2.3	2.0	+0.3%

#### Fixed Income Segment Performance

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR <sup>40</sup>	PAR <sup>41</sup>	5-year Sharpe Ratio <sup>42</sup>	5-year Info Ratio <sup>42</sup>
<b>Total Fixed Income</b>	<b>44.6</b>	<b>2.3%</b>	<b>-2.8%</b>	<b>3.3%</b>	<b>4.1%</b>	<b>5.5%</b>	<b>2.2%</b>	<b>0.1%</b>	<b>0.1</b>	<b>-0.6</b>
Fixed Income Policy Index <sup>37</sup>		6.4%	5.7%	5.8%	5.4%	6.0%			0.3	0.0
Value Added		-4.1%	-8.5%	-2.5%	-1.3%	-0.5%				
<b>U.S. Fixed Income</b>	<b>40.4</b>	<b>1.9%</b>	<b>-3.8%</b>	<b>2.8%</b>	<b>4.0%</b>	<b>5.5%</b>			<b>0.1</b>	<b>-0.5</b>
Policy Index <sup>38</sup>		6.2%	5.4%	5.4%	5.3%	6.1%			0.3	0.0
Value Added		-4.3%	-9.2%	-2.6%	-1.3%	-0.6%				
<b>Non-U.S. Fixed Income</b>	<b>4.2</b>	<b>6.4%</b>	<b>5.7%</b>	<b>7.6%</b>	<b>5.1%</b>	<b>4.8%</b>			<b>0.2</b>	<b>-0.5</b>
Policy Index <sup>39</sup>		8.6%	9.4%	9.2%	5.9%	5.5%			0.3	0.0
Value Added		-2.2%	-3.7%	-1.6%	-0.8%	-0.7%				

#### Comments Regarding Recent Fixed Income Segment Performance

##### Helped Performance:

- ◆ **Treasury Bonds:** Treasury bonds outperformed versus the fixed income policy index for the quarter as treasuries were the lone bright spot during the quarter. The portfolio has outperformed the fixed income policy over the one, three, five year, and ten year time periods.

<sup>37</sup> The Fixed Income Policy Index return equals the benchmark returns for domestic and international fixed income components weighted at policy allocation target percentages.

<sup>38</sup> The Domestic Fixed Income Policy Index consists of the Barclays Long Liability Index and is linked historically to its prior benchmark.

<sup>39</sup> The Non-US Fixed Income Policy Index consists of the Barclays International Fixed Income and is linked historically to its prior benchmark.

<sup>40</sup> VAR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value ((Expected Return – (1.65 X SD)) X MV).

<sup>41</sup> PAR (Performance at Risk) measures how much the portfolio might underperform its benchmark over a 12 month period in extreme cases. This PAR shows how much the portfolio might underperform in the worst 5% of 12 month periods. PAR is calculated using excess risk (tracking error) and market value (1.65 X TE X MV).

<sup>42</sup> The “Information Ratio” calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per risk ventured. The Sharpe ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

***Impeded Performance:***

- ◆ **Corporate Bonds:** CalPERS' corporate bonds portfolio underperformed the overall fixed income segment for the quarter.
- ◆ **Mortgage Bonds:** CalPERS' mortgage portfolio underperformed the overall fixed income segment. This segment has underperformed over the one year, three year, and five year periods.
- ◆ **Special Investments:** The special investments underperformed versus the fixed income policy index over the quarter and have outperformed or equaled the fixed income policy index over the one year, three year, and five year periods.
- ◆ **International Fixed Income:** The System's external international bond segment underperformed the total fixed income policy for the quarter. The portfolio has underperformed versus the fixed income policy over the one year, three year, and five year periods.
- ◆ **Internal Sovereign Bonds:** The System's Sovereign portfolio, which holds non-US government bonds that are U.S. Dollar denominated, underperformed versus the total fixed income policy over the quarter but has outperformed over the five and ten year periods.
- ◆ **External High Yield Bonds:** The external high yield bond managers underperformed the fixed income policy index during the quarter. The segment has added underperformed over the long term.
- ◆ **Internal High Yield Bonds:** CalPERS' internal high yield portfolio underperformed the fixed income policy index over the quarter.



## Fixed Income Performance

	<b>Market Value</b>	<b>Qtr</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>10 Year</b>
<b>Total Fixed Income</b>	<b>44.6</b>	<b>2.3%</b>	<b>-2.8%</b>	<b>3.3%</b>	<b>4.1%</b>	<b>5.5%</b>
<i>Fixed Income Policy Index</i> <sup>43</sup>		6.4%	5.7%	5.8%	5.4%	6.0%
<i>Value Added</i>		-4.1%	-8.5%	-2.5%	-1.3%	-0.5%
<b>Total Internal Bonds*</b>	<b>36.0</b>	<b>5.0%</b>	<b>-0.6%</b>	<b>3.6%</b>	<b>4.4%</b>	<b>5.7%</b>
Mortgage Bonds	9.2	-3.4%	-3.1%	2.8%	3.3%	4.7%
Long Duration	3.4	-5.8%	-9.9%	0.4%	-.%	-.%
Corporate Bonds	12.6	5.2%	-12.0%	-0.8%	2.6%	5.0%
U.S. Government	9.5	17.9%	22.2%	11.6%	8.1%	-.%
Sovereign Bonds <sup>44</sup>	0.9	-0.8%	-0.1%	4.0%	5.5%	7.4%
Duration/SEC Allocation	1.1	13.6%	-9.2%	-0.3%	-.%	-.%
<i>Custom Benchmark</i> <sup>45</sup>		6.2%	5.4%	5.4%	5.3%	6.1%
<b>Opportunistic</b> <sup>46</sup>	<b>2.0</b>	<b>-45.3%</b>	<b>-62.8%</b>	<b>-19.8%</b>	<b>-5.6%</b>	<b>-.%</b>
Internal High Yield Bonds*	0.5	-11.4%	-7.6%	4.3%	10.3%	-.%
External High Yield*	0.7	-27.0%	-33.8%	-8.2%	-1.3%	-.%
<i>Citigroup High Yield Cash Pay</i>		-19.2%	-26.3%	-5.9%	-1.1%	-.%
<b>Special Investments</b>	<b>1.1</b>	<b>3.3%</b>	<b>6.3%</b>	<b>6.4%</b>	<b>5.6%</b>	<b>5.6%</b>
<b>External International Fixed Income</b>	<b>4.2</b>	<b>6.4%</b>	<b>5.7%</b>	<b>7.6%</b>	<b>5.1%</b>	<b>4.8%</b>
<i>Custom Benchmark</i> <sup>47</sup>		8.6%	9.4%	9.2%	5.9%	5.5%
<i>Value Added</i>		-2.2%	-3.7%	-1.6%	-0.8%	-0.7%
<b>Currency Overlay</b> <sup>48</sup>						
Pareto Partners	2.4	-16.0%	-37.3%	-6.8%	2.6%	2.1%
<i>Custom Benchmark</i>		-15.4%	-37.8%	-7.1%	-1.4%	-0.8%
<i>Value Added</i>		-0.6%	0.5%	0.3%	4.0%	2.9%
Internal Currency	2.2	-16.5%	-38.6%	-7.7%	2.7%	-.%
<i>Custom Benchmark</i>		-15.4%	-37.8%	-7.1%	-1.4%	-.%
<i>Value Added</i>		-1.1%	-0.8%	-0.6%	4.1%	-.%
State Street London	2.0	-17.7%	-40.2%	2.5%	8.6%	5.2%
<i>Custom Benchmark</i>		-15.4%	-37.8%	-7.1%	-1.4%	-0.8%
<i>Value Added</i>		-2.3%	-2.4%	9.6%	10.0%	6.0%
<b>Short Term</b>						
High Quality LIBOR*	11.3	-6.9%	-7.0%	0.8%	1.5%	-.%
<i>Custom Benchmark</i>		0.1%	1.9%	3.9%	3.3%	-.%
<i>Value Added</i>		-7.0%	-8.9%	-3.1%	-1.8%	-.%
Short Duration LIBOR*	1.4	-8.6%	-13.0%	-1.7%	0.0%	-.%
<i>Custom Benchmark</i>		0.1%	1.9%	3.9%	3.3%	-.%
<i>Value Added</i>		-8.7%	-14.9%	-5.6%	-3.3%	-.%

<sup>43</sup> The Fixed Income Policy Index return equals the benchmark returns for domestic and international fixed income components weighted at policy allocation target percentages.

<sup>44</sup> The Internal Sovereign Bond market value is also included in the Internal Treasury Bond market value.

<sup>45</sup> The custom benchmark consists of the Barclays Long Liability Index. Prior of 3Q 2004 the benchmark was Citigroup LPF.

<sup>46</sup> Opportunistic includes internal and external high yield. Internal High Yield's market value is included in both the Total Internal Bonds and the Opportunistic Market Values.

<sup>47</sup> The custom benchmark consists of the Barclays International Fixed Income and is linked historically to its prior benchmark.

<sup>48</sup> Currency overlay's performance is rolled into the intl equity comp., but is shown here since it is managed by fixed income managers.

\* These portfolios and/or composites are unitized and are included across multiple plans.





## Total Inflation Linked Performance for PERF Period Ended 12/31/08

### Inflation Linked Allocation

#### Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Inflation Linked	2.0%	2.0%	0.0%

### Inflation Linked Performance

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year
<b>Inflation Linked</b>	<b>3.6</b>	-13.6%	-11.1%	-.-%	-.-%	-.-%
<i>CPI + 400 BP ***</i>		-2.0%	5.1%	-.-%	-.-%	-.-%
<i>Value Added</i>		-11.6%	-16.2%	-.-%	-.-%	-.-%
<b>Inflation Linked Ex- Commodities</b>	<b>3.1</b>	-2.1%	3.8%	-.-%	-.-%	-.-%
<i>CPI + 400 BP ***</i>		-2.0%	5.1%	-.-%	-.-%	-.-%
<i>Value Added</i>		-0.1%	-1.3%	-.-%	-.-%	-.-%
<b>Commodities Collateral</b>	<b>0.6</b>	0.3%	0.5%	-.-%	-.-%	-.-%
<i>Blended LIBOR Fed Fund Index</i>		0.1%	1.9%	-.-%	-.-%	-.-%
<i>Value Added</i>		0.2%	-1.4%	-.-%	-.-%	-.-%
<b>Commodities Overlay**</b>	<b>0.0</b>	-46.4%	-47.8%	-.-%	-.-%	-.-%
<i>Goldman Sachs Commodity Excess Return Index</i>		-47.1%	-47.3%	-.-%	-.-%	-.-%
<i>Value Added</i>		0.7%	-0.5%	-.-%	-.-%	-.-%
<b>Forestland*</b>	<b>1.6</b>	-0.1%	13.8%	-.-%	-.-%	-.-%
<i>CPI + 500 BP ***</i>		-1.7%	6.1%	-.-%	-.-%	-.-%
<i>Value Added</i>		1.6%	7.7%	-.-%	-.-%	-.-%
<b>Inflation Linked Bonds</b>	<b>1.3</b>	-4.8%	-.-%	-.-%	-.-%	-.-%
<i>Barclays Inflation Linked Bonds Index</i>		-4.7%	-.-%	-.-%	-.-%	-.-%
<i>Value Added</i>		-0.1%	-.-%	-.-%	-.-%	-.-%
<b>Infrastructure*</b>	<b>0.1</b>	0.2%	-6.5%	-.-%	-.-%	-.-%
<i>CPI + 500 BP ***</i>		-1.7%	6.1%	-.-%	-.-%	-.-%
<i>Value Added</i>		1.9%	-12.6%	-.-%	-.-%	-.-%

- ◆ CalPERS Inflation Linked performance underperformed its benchmark of the CPI + 400 bp for the quarter.

\* Are reported on a quarter-lag.

\*\* The overlay portfolio is a derivatives portfolio which has no market value but a notional value approximately equal to the size of the commodities collateral.

\*\*\* Are reported on a month-lag.



## Total Real Estate Review for PERF Period Ended 12/31/08

### Real Estate Allocation

#### Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Real Estate	11.5%	10.0%	+1.5%

### Real Estate Segment Performance

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR <sup>51</sup>	PAR <sup>52</sup>	5-year Sharpe Ratio <sup>53</sup>
Total Real Estate <sup>49</sup>	21.1	-5.1%	-18.5%	4.4%	13.1%	11.7%	4.0%	0.1%	0.8
Policy Index <sup>50</sup>		-3.0%	1.6%	11.9%	13.4%	11.4%			1.5
TUCS Real Estate Median		-10.1%	-10.5%	5.8%	10.1%	10.1%			
Total Core Real Estate	11.2	-1.4%	5.0%	16.0%	21.0%	15.8%			
Core Real Estate Private	11.2	-1.4%	4.9%	16.0%	21.0%	15.7%			
Total Special Real Estate	9.9	-9.2%	-37.1%	-6.3%	4.9%	6.4%			

- ◆ CalPERS' real estate composite produced a return of -5.1% during the quarter, underperforming the lagged NCREIF Property Index return. Over the long term the composite has added value and outperformed both the NCREIF and the TUCS real estate median.

<sup>49</sup> Real estate total returns are net of investment management fees and all expenses, including property level operations expenses netted from property income. This method differs from GASB 31, which requires all investment expenses be identified for inclusion in the System's general purpose financial statements.

<sup>50</sup> The performance of CalPERS' real estate segment is lagged one quarter. The policy index changed in July 2008. The new benchmark is 90% of NCREIF + 200% and 10% of FTSE NAREIT Global Index.

<sup>51</sup> VAR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value ((Expected Return - (1.65 X SD)) X MV).

<sup>52</sup> PAR (Performance at Risk) measures how much the portfolio might underperform its benchmark over a 12 month period in extreme cases. This PAR shows how much the portfolio might underperform in the worst 5% of 12 month periods. PAR is calculated using excess risk (tracking error) and market value (1.65 X TE X MV).

<sup>53</sup> The Sharpe ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.



## AIM Program Review for PERF Period Ended 12/31/08

### AIM Program Allocation

#### Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
AIM	13.1%	9.5%	+3.6%

### AIM Segment Performance

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR <sup>56</sup>	PAR <sup>57</sup>	5-year Sharpe Ratio <sup>58</sup>
AIM Program <sup>54</sup>	24.0	-12.1%	-8.0%	11.8%	15.2%	10.2%	6.8%	0.1%	1.1
Policy Index <sup>55</sup>		-22.2%	-35.5%	-5.4%	2.0%	3.7%			-0.1
Value Added		10.1%	27.5%	17.2%	13.2%	6.5%			
Long-Term Policy						4.3%			
Custom Young Fund		2.1%	9.0%	14.9%	15.5%	4.7%			
AIM Partnership Investments	24.0	-12.1%	-7.9%	11.9%	15.3%	9.8%			
AIM Distribution Stock	0.0	34.1%	-4.0%	4.9%	6.4%	-.%			

- ◆ The AIM program underperformed its objective over the quarter and has outperformed for the one year, three year, five year, and ten year periods.

## Cash Program Review for PERF

### Cash Program Allocation

#### Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Cash	8.3%	0.0%	+8.3%

### Cash Segment Performance

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year
Equitized Cash Composite <sup>59</sup>	15.2	-23.2%	-36.4%	-11.4%	-6.1%	-1.1%
Policy Index <sup>60</sup>		0.4%	2.6%	4.3%	3.5%	3.6%
Value Added		-23.6%	-39.0%	-15.7%	-9.6%	-4.7%
Total Cash	15.1	0.4%	2.7%	4.4%	3.6%	3.8%
Cash Equitization	0.0	-33.9%	-52.1%	-.%	-.%	-.%

<sup>54</sup>The performance of CalPERS' AIM segment is lagged one quarter.

<sup>55</sup>The AIM Policy Index consists of the Pers 2500 ex-tob +3% linked historically to the Custom Young Fund and is linked historically to its prior benchmark.

<sup>56</sup>VAR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value ((Expected Return - (1.65 X SD)) X MV).

<sup>57</sup>PAR (Performance at Risk) measures how much the portfolio might underperform its benchmark over a 12 month period in extreme cases. This PAR shows how much the portfolio might underperform in the worst 5% of 12 month periods. PAR is calculated using excess risk (tracking error) and market value (1.65 X TE X MV).

<sup>58</sup>The Sharpe ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

<sup>59</sup>Cash is equitized using equity index futures in proportion to the Total Equity Policy Weights.

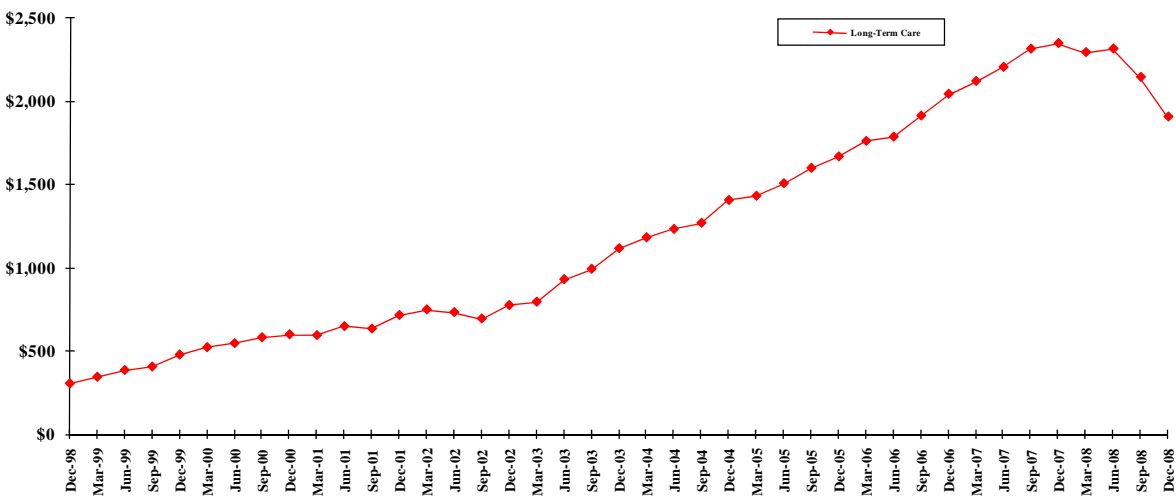
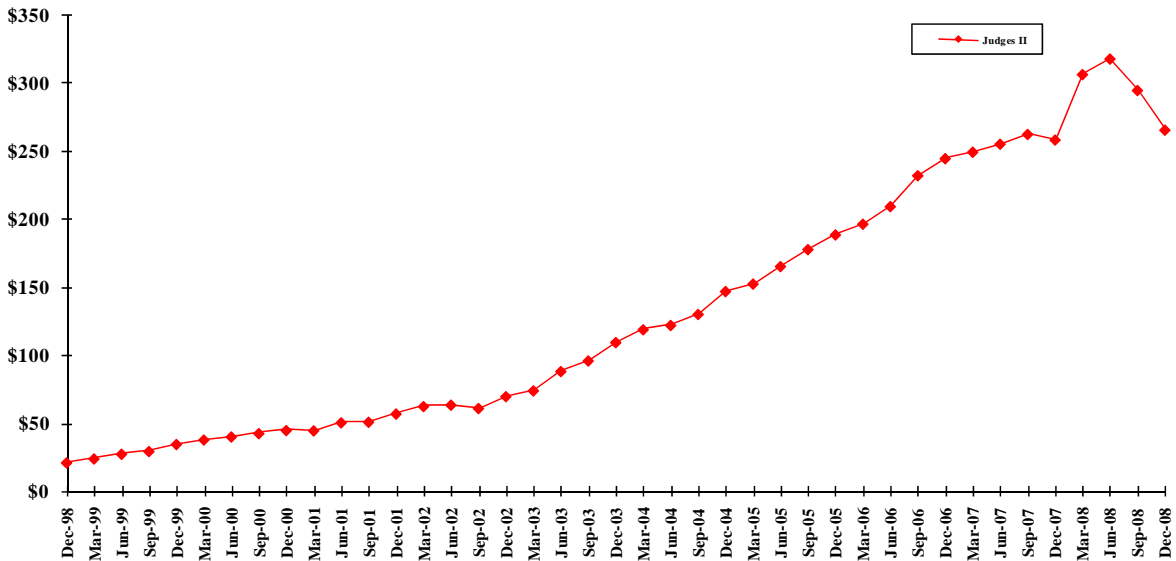
<sup>60</sup>The Custom STIF Policy Index is a custom index.

## **Affiliate Fund Information**



## Affiliate Fund Performance Period Ended December 31, 2008

### Growth in Assets (in \$Millions)





## Total Fund Performance Results

### Total Fund Performance Periods Ended December 31, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
<b>Judges II</b>	\$266.2 mil	-14.5%	-26.6%	-3.8%	1.0%	1.9%
<i>Weighted Policy Benchmark</i> <sup>61</sup>		-13.5	-24.6	-3.0	1.4	2.2
<b>Long Term Care ("LTC")</b>	\$1,907.5 mil	-13.0	-25.0	-3.2	1.2	1.9
<i>Weighted Policy Benchmark</i>		-12.7	-23.5	-2.7	1.3	2.1
<b>Annuitants Health Care</b>	\$584.0 mil	-18.3	-30.7	-.-	-.-	-.-
<i>Weighted Policy Benchmark</i>		-18.1	-31.4	-.-	-.-	-.-
<i>TUCS Public Fund Median</i> <sup>62</sup>		-13.2	-24.9	-2.6	2.0	3.1

## Asset Allocation

### Judges II Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation (%)	Target Asset Allocation (%)	Difference
US Equities	31.7	34.0	-2.3
Int'l Equity	19.3	20.0	-0.7
US Bonds	37.0	36.0	1.0
Real Estate	8.9	10.0	-1.1
Cash	3.1	0.0	3.1
Total	100.0	100.0	0.0

### LTC Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation (%)	Target Asset Allocation (%)	Difference
US Equities	28.8	29.0	-0.2
Int'l Equity	18.8	19.0	-0.2
US Bonds	30.6	30.0	0.6
High Yield	9.3	10.0	-0.7
TIPS	7.1	7.0	0.1
Real Estate	5.4	5.0	0.4
Cash	0.0	0.0	0.0
Total	100.0	100.0	0.0

<sup>61</sup> The weighted policy benchmark returns for Judges II and LTC are based on asset class index returns weighted by asset class policy targets.

<sup>62</sup> The Trust Universe Comparison Service (TUCS) is a universe of over 1,000 client portfolios returns subdivided by client type and asset class.





## Commentary

- ◆ For the quarter ended December 31, 2008, the Judges II generated a total return of -14.5% and underperformed its weighted policy benchmark's return of -13.5%. The Plan's asset allocation effect was slightly negative this quarter, with Judges II having an overweight in real estate and U.S. equity, the worst performing asset classes in absolute terms. Large underperformance produced by the Plan's fixed income portfolio was the primary performance detractor, as the fixed income portfolio trailed its policy benchmark by 205 bps. Judges II has underperformed its policy benchmark for all other measured periods.
- ◆ The LTC generated a fourth quarter return of -13.0% and underperformed its weighted policy benchmark's return of -12.7%. Similar to Judges II, large underperformance by LTC's core fixed income portfolio was a drag on overall performance, although its overweight in real estate and U.S. equity relative to the policy target was the main detractor this quarter. Over the one-year and longer periods, the LTC continues to lag its policy benchmark.
- ◆ At the end of the quarter, Judges II was underweight in U.S. equity, international equity and core fixed income while overweight in real estate and cash.
- ◆ The LTC had an overweight in core fixed income, TIPS and real estate while underweight in U.S. equity, international equity and high yield.

## U.S. Equity Performance

### U.S. Equity Performance Periods Ended December 31, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Judges II U.S. Equity	\$85.4 mil	-22.1%	-37.3%	-8.6%	-2.4	-1.6%
<i>Custom Benchmark</i> <sup>63</sup>		-22.1	-37.3	-8.6	-2.4	-1.5
LTC U.S. Equity	\$548.8	-22.1	-37.3	-8.6	-2.4	-1.6
<i>Custom Benchmark</i> <sup>63</sup>		-22.1	-37.3	-8.6	-2.4	-1.5
<i>TUCS Equity Median</i>		-22.9	-37.0	-8.5	-1.3	1.5

## Commentary

- ◆ The Judges II and LTC equity funds, which are invested in the Custom S&P 500 ex-Tobacco Index Fund, generated a return of -22.1% for the quarter and mirrored their custom benchmark. The funds have continued to track very closely to the S&P 500 ex-Tobacco Index over longer-term periods.

<sup>63</sup> A custom tobacco-free S&P 500 is used as the benchmark for the U.S. equity segments of Judges II and LTC starting with February 2001 performance. Prior of that the benchmark was the S&P 500 Index.



## International Equity Performance

### International Equity Performance Periods Ended December 31, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Judges II Int'l Equity	\$51.0 mil	-21.0%	-43.6%	-6.8%	2.1%	1.2%
<i>Custom Benchmark</i> <sup>64</sup>		-21.0	-43.6	-6.9	2.0	1.0
LTC Int'l Equity	\$358.3	-21.0	-43.6	-7.1	1.9	1.1
<i>Custom Benchmark</i> <sup>64</sup>		-21.0	-43.6	-6.9	2.0	1.0

## Commentary

- ◆ The Judges II and LTC international equity funds returned -21.0% for the quarter and matched their custom benchmark, the FTSE Developed World ex-US & Tobacco Index. The funds are performing in line with expectations and continue to add value over the long-term.

<sup>64</sup> Effective October 1, 2006, the benchmark is FTSE Developed World ex-U.S. & Tobacco Index. Prior of that the benchmark was the MSCI EAFE Index (Net).



## Total Fixed Income

### Fixed Income Performance Periods Ended December 31, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Judges II Fixed Income <i>Custom Benchmark</i> <sup>65</sup>	\$92.0 mil	4.1%	-1.5%	3.0%	3.1%	5.0%
		6.2	5.3	5.4	4.5	5.5
LTC Fixed Income <i>Custom Benchmark</i> <sup>66</sup>	\$584.2	4.1	-1.5	3.0	3.4	5.2
		6.2	5.3	5.3	4.4	5.5
LTC High Yield <i>Barclays Long Liability High Yield</i>	\$177.7	-18.6	-26.4	-5.7	-.-	-.-
		-19.2	-26.3	-5.9	-.-	-.-
LTC TIPS <i>Barclays Long Liability TIPS</i>	\$134.4	-1.8	-0.4	3.3	-.-	-.-
		-3.5	-2.4	2.7	-.-	-.-

## Commentary

- ◆ The Judges II and LTC fixed income portfolios were the only portfolios producing positive results during the fourth quarter, returning 4.1%, though they trailed their custom benchmark, the Barclays Long Liability Index. The portfolios have also lagged the benchmark for all other measured periods shown above.
- ◆ LTC's high yield portfolio generated a return of -18.6% for the quarter and performed better than the Barclays Long Liability High Yield Index's return of -19.2%. The high yield portfolio's one-year return slightly lagged its benchmark, but has outperformed over the three-year period.
- ◆ The LTC's TIPS portfolio, managed against the Barclays Long Liability TIPS Index, generated a return of -1.8% and outperformed relative to its benchmark for the quarter. Over the one- and three-year periods, the portfolio's track record has also done well against the Barclays Long Liability TIPS Index.

<sup>65</sup> The current benchmark is the Barclays Long Liability Index. Prior of July 2005 the benchmark was the Barclays Aggregate Bond Index.

<sup>66</sup> The current benchmark is the Barclays Long Liability Index. Barclays Long Liability ex TIPS ex High Yield was the benchmark between June 2007 and July 2005. Prior of that the benchmark was the Barclays Aggregate Bond Index.



## Total Real Estate

### Real Estate Performance Periods Ended December 31, 2008

	<b>Market Value</b>	<b>Qtr</b>	<b>One Year</b>	<b>Three Year</b>	<b>Five Year</b>
Judges II REIT	\$27.8 mil	-38.0%	-36.6%	-10.9%	-.-
LTC REIT	103.9 mil	-38.0	-37.8	-11.4	-.-
<i>Custom Benchmark <sup>67</sup></i>		-40.4	-39.8	-12.4	-.-
<i>DJ Wilshire RESI</i>		-40.4	-39.8	-12.4	0.6
<i>TUCS Real Estate Median</i>		-10.1	-10.5	5.8	10.1

## Commentary

- ◆ Judges II and LTC's REIT portfolios both produced a fourth quarter return of -38.0% and returned slightly better than their custom benchmark, the Dow Jones Wilshire Real Estate Securities Index. The REIT portfolios have also outperformed relative to the custom benchmark over the one- and three-year periods.

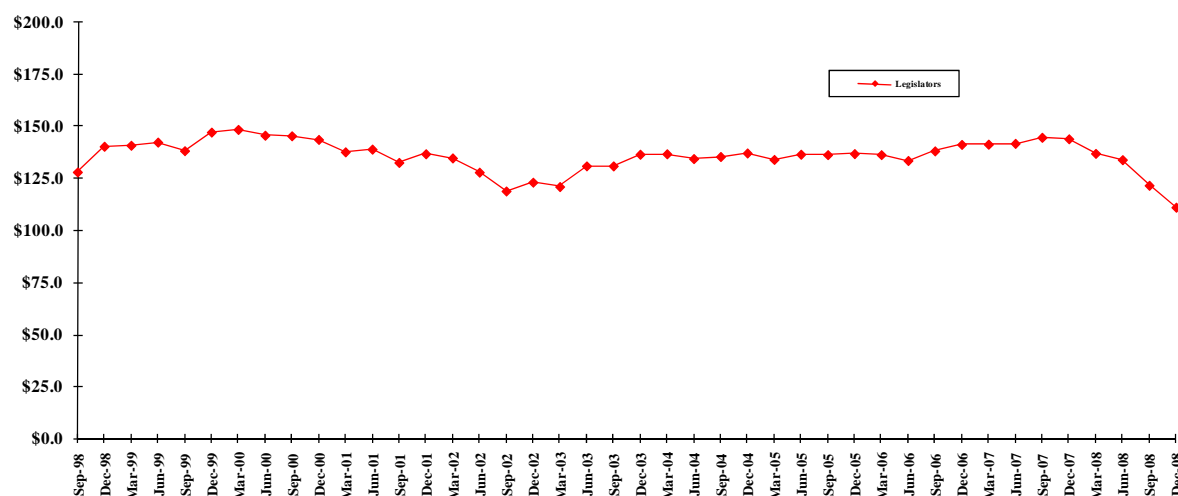
<sup>67</sup> Current benchmark is the DJ Wilshire RESI Index. Historically, it has been the DJ Wilshire REIT Index.

## **Legislators' Information**



## California Legislators' Retirement System

### Growth in Assets



### Total Fund Performance Results

#### Total Fund Performance Periods Ended December 31, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
<b>LRS</b>	<b>\$111.2 mil</b>	<b>-6.9%</b>	<b>-17.6%</b>	<b>-1.0%</b>	<b>2.0%</b>	<b>3.3%</b>
<i>Weighted Policy Benchmark</i> <sup>68</sup>		-6.0	-14.7	0.1	2.9	3.9
<i>TUCS Public Fund Median</i> <sup>69</sup>		-13.2	-24.9	-2.6	2.0	3.1

### Asset Allocation

Asset Class	Actual	Policy	Difference
US Equity	30.1%	30.0%	+0.1%
International Equity	9.1	10.0	-0.9
US Bonds	50.5	50.0	+0.5
TIPS	10.3	10.0	+0.3
Cash Equivalents	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
	100.0	100.0	0.0

<sup>68</sup> The weighted policy benchmark returns are calculated based on asset class index returns weighted by asset class policy targets.

<sup>69</sup> The Trust Universe Comparison Service (TUCS) is a universe of over 1,000 client portfolio returns subdivided by client type and asset class.





## Commentary

- ◆ The California Legislators' Retirement System ('LRS, the System') generated a return of -6.9% for the fourth quarter of 2008 and underperformed its weighted policy benchmark's return of -6.0%. Large underperformance by the System's core fixed income portfolio during the quarter was the primary performance detractor, as the fixed income portfolio trailed its respective benchmark by 205 bps. Over the one-year and longer periods, the System has also underperformed its policy benchmark. The LRS' portfolio outperformed relative to the TUCS Public Fund Median for the quarter as well as over the one-, three-, and ten-year periods.
- ◆ As of December 31, the System was overweight in U.S. equity, fixed income and TIPS while underweight in international equity.

## LRS Internal U.S. Equity Assets

### LRS Internal U.S. Equity Performance Periods Ended December 31, 2008

	<b>Market Value</b>	<b>Qtr</b>	<b>One Year</b>	<b>Three Year</b>	<b>Five Year</b>	<b>Ten Year</b>
LRS U.S. Equity	\$33.4 mil	-22.1%	-37.3%	-8.5%	-2.4%	-1.5%
<i>Custom S&amp;P 500 Index</i> <sup>70</sup>		-22.1	-37.3	-8.6	-2.4	-1.5
<i>TUCS Equity Median</i>		-22.9	-37.0	-8.5	-1.3	1.5

## Commentary

- ◆ The System's U.S. equity portfolio generated a return of -22.1% during the fourth quarter and matched its custom benchmark, the S&P 500 ex-Tobacco Index. Over the one-year and longer periods, the portfolio continues to track very closely to its custom benchmark.

## International Equity Performance

### Total International Equity Performance Periods Ended December 31, 2008

	<b>Market Value</b>	<b>Qtr</b>	<b>One Year</b>	<b>Three Year</b>	<b>Five Year</b>	<b>Ten Year</b>
LRS International	\$10.1 mil	-21.0%	-43.6%	-6.9%	2.1%	1.2%
<i>Custom Benchmark</i> <sup>71</sup>		-21.0	-43.6	-6.9	2.0	1.0

<sup>70</sup> A custom tobacco-free S&P 500 is used as the benchmark for the U.S. equity segment of LRS starting with the February 2001 performance. Prior of that the benchmark was the S&P 500 Index.

<sup>71</sup> Effective October 1, 2006, the benchmark is the FTSE Developed World ex-U.S. & Tobacco Index. Prior of that the benchmark was the MSCI EAFE Index (Net).



## Commentary

- ◆ The System's international equity portfolio returned -21.0% for the quarter and mirrored its custom benchmark, the FTSE Developed World ex-U.S. & Tobacco Index. The international equity portfolio continues to do well against its custom benchmark and has added value over the long term.

## Total Fixed Income

### Total Fixed Income Performance Periods Ended December 31, 2008

	<b>Market Value</b>	<b>Qtr</b>	<b>One Year</b>	<b>Three Year</b>	<b>Five Year</b>	<b>Ten Year</b>
<b>LRS Fixed Income</b>	\$56.2 mil	4.1%	-1.5%	3.1%	3.2%	5.1%
<i>Custom Benchmark</i> <sup>72</sup>		6.2	5.3	5.4	5.3	6.1
<b>LRS TIPS</b>	\$11.5 mil	-1.8	-0.4	3.3	-.	-.
<i>Custom Benchmark</i> <sup>73</sup>		-3.5	-2.4	2.7	-.	-.

## Commentary

- ◆ The LRS fixed income portfolio generated the highest absolute-term return among all segments by returning 4.1% for the quarter, but it trailed relative to its custom benchmark, the Barclays Long Liability Index. Over the long term, the portfolio has also underperformed its benchmark for all measured periods shown above.
- ◆ The System's TIPS portfolio produced a return of -1.8% for the quarter and outperformed relative to its custom benchmark, the Barclays U.S. TIPS Index. The TIPS portfolio has also outperformed over the one-year and three-year periods.

<sup>72</sup> The current benchmark is the Barclays Long Liability Index. Lehman Long Liability ex TIPS was used as the benchmark between June 2005 and May 2007. Prior of that the benchmark was Citigroup LPF.

<sup>73</sup> The current benchmark is the Barclays U.S. TIPS Index. Prior of July 2007 the benchmark was the Barclays Long Liability TIPS Index.

## **Annuitants Healthcare Plan**



## Annuitants HealthCare

### Asset Allocation

Asset Class	Actual	Policy	Difference
US Equity	33.5%	35.0%	-1.5%
International Equity	27.8	29.0	-1.2
US Bonds	21.0	20.0	1.0
High Yield	4.6	6.0	-1.4
REITS	10.2	10.0	0.2
Cash Equivalents	<u>3.0</u>	<u>0.0</u>	<u>3.0</u>
	100.0	100.0	0.0

### Total Fund Performance Results

#### Total Fund Performance Periods Ended December 31, 2008

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
<b>Total Fund</b>	\$584.0 mil	-18.3%	-27.4%	-.%	-.%	-.%
<i>Benchmark</i>		-18.1	-31.2	-.%	-.%	-.%
<b>Domestic Equity</b>	195.5 mil	-22.1	-37.3	-.%	-.%	-.%
<i>Benchmark</i>		-22.1	-37.3	-.%	-.%	-.%
<b>International Equity</b>	162.1 mil	-21.0%	-43.6	-.%	-.%	-.%
<i>Benchmark</i>		-21.0	-43.6	-.%	-.%	-.%
<b>REITS</b>	59.6 mil	-37.6%	-36.2	-.%	-.%	-.%
<i>Benchmark</i>		-40.4	-39.8	-.%	-.%	-.%
<b>Fixed Income</b>	122.7 mil	4.1%	-1.5	-.%	-.%	-.%
<i>Benchmark</i>		6.2	5.4	-.%	-.%	-.%
<b>Healthcare Bond Fund</b>	0.4 mil	2.2	0.5	-.%	-.%	-.%
<i>Barclays Aggregate</i>		4.6	5.2	-.%	-.%	-.%
<b>High Yield</b>	26.6 mil	-18.6	-26.4%	-.%	-.%	-.%
<i>Benchmark</i>		-19.2	-26.3%	-.%	-.%	-.%
<b>Cash</b>	17.5 mil	0.3	2.5	-.%	-.%	-.%

## **Supplemental Income Plans**



## Supplemental Income Plan Performance

### Total Fund Performance Results- Supplemental Contribution Plan

Periods Ended December 31, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>
<b>Total Fund</b>	\$14.0mil	-14.5%	-29.6%	-4.8%	0.4%
<i>Weighted Policy</i>		-14.5	-28.4	-4.2	0.6
<b>SCP Equity Fund</b>	\$7.1 mil	-22.1	-37.3	-8.5	-2.4
<i>PERS S&amp;P 500</i>		-22.1	-37.3	-8.6	-2.4
<b>SCP International Fund</b>	\$2.7 mil	-21.0	-43.6	-6.8	2.0
<i>Custom Benchmark</i>		-21.0	-43.6	-6.9	2.0
<b>SCP Fixed Fund</b>	\$3.9 mil	4.1	-1.5	4.6	
<i>Custom Benchmark</i>		6.2	5.4	5.4	
<b>SCP Short Term Fund</b>	\$0.3 mil	0.3	2.5	3.8	2.9
<b>International index</b>	\$139 thous	-21.0	-43.6	--	--
<i>FTSE Developed World Ex-Us</i>		-20.9	-43.3	--	--
<b>Small/Mid Equity Index</b>	130 thous	-26.3	-36.8	--	--
<i>Russell 2500</i>		-26.3	-36.8	--	--
<b>SSgA Age-Based 2010</b>	14.3 thous	-7.9	-17.2	--	--
<i>Custom SSgA Index</i>		-8.4	-17.6	--	--
<b>SSgA Age-Based 2020</b>	13.0 thous	-13.1	-25.7	--	--
<i>Custom SSgA Index</i>		-13.6	-26.1	--	--
<b>SSgA International Alpha Select</b>	4.5 thous	-20.0	-42.2	--	--
<i>MSCI EAFE Index</i>		-20.0	-43.4	--	--
<b>TIPS Securities Fund</b>	281 thous	-1.8	-0.7	--	--
<i>Barclays TIPS Index</i>		-3.5	-2.4	--	--
<b>Total Return Bond Fund</b>	19.4 thous	2.1	0.2	--	--
<i>Barclays Government 1-3 Years</i>		4.6	5.2	--	--
<b>Turner Large Cap Growth</b>	28.0 thous	-25.2	-48.3	--	--
<i>Russell 1000 Growth</i>		-22.8	-38.4	--	--



<b>Aggressive Asset Allocation</b>	19.5 thous	-3.3	-18.9	--	--
<i>SSgA Growth Index</i>		-17.2	-31.1	--	--
<b>S&amp;P 500 Equity Index Fund</b>	529.6 thous	-21.8	-36.8	--	--
<i>S&amp;P 500 Index</i>		-21.9	-37.0	--	--
<b>SSgA AgeBased Income</b>	52.5 thous	-7.4	--	--	--
<i>SSgA Income Custom Index</i>		-7.5	--	--	--
<b>SSgA AgeBased 2030</b>	0.0 thous	-17.0	--	--	--
<i>SSgA Income Custom Index</i>		-17.4	--	--	--
<b>SSgA AgeBased 2040</b>	0.0 thous	-19.3	--	--	--
<i>SSgA Income Custom Index</i>		-19.3	--	--	--
<b>Moderate Asset Allocation Fund</b>	45.1 thous	-11.2	--	--	--
<i>SSgA Balanced Growth index</i>		-12.0	--	--	--
<b>Conservative Asset Allocation</b>	12.6 thous	1.2	-6.6	--	--
<i>SSgA Income and Growth index</i>		-6.7	-14.2	--	--
<b>Alliance Bernstein Large Cap</b>	37.3 thous	-18.1	--	--	--
<i>Russell 1000 Value</i>		-22.2	--	--	--
<b>Stable Fixed Income</b>	1,025 thous	0.9	--	--	--
<i>LB Government 1-3 Year index</i>		3.0	--	--	--



**CalPERS Deferred Compensation Plan**  
**Historical Performance**  
**Periods Ended December 31, 2008**

	<b>Market Value</b>	<b>Qtr</b>	<b>One Year</b>	<b>Three Year</b>	<b>Five Year</b>	<b>Ten Year</b>
U.S. Equity Option	\$163.8 m	-21.7%	-36.7%	-8.1%	-2.1%	-1.4%
Custom S&P 500 Index		-21.9	-37.0	-8.4	-2.2	-1.4

**CalPERS 457 Program Net Funds**  
**Periods Ended December 31, 2008**

	<b>Market Value</b>	<b>Qtr</b>	<b>One Year</b>	<b>Three Year</b>	<b>Five Year</b>	<b>Ten Year</b>
<b>SSgA Stable Fixed Income</b>	\$171.0 mil	0.8	3.3	3.9	3.9	4.4
Barclays Bros Government 1-3		3.0	6.7	6.0	4.1	4.8
<b>S&amp;P 500 Equity Fund</b>	85.9 mil	-21.8	-37.0	-8.5	-2.4	-1.7
S&P 500 Index		-21.9	-37.0	-8.4	-2.2	-1.4
<b>Alliance Bernstein Large Cap</b>	1.3 mil	-18.2	-41.3	--	--	--
Russell 1000 Value		-22.2	-36.9			
<b>Turner Large Cap Growth</b>	24.4 mil	-25.2	-48.3	--	--	--
Russell 1000 Growth		-22.8	-38.4			
<b>Small/Mid Equity Index</b>	59.1 mil	-26.4	-37.1	--	--	--
Russell 2500 Index		-26.3	-36.8			
<b>Total Return Bond Fund</b>	33.6 mil	2.0	-0.1	--	--	--
Barclays Aggregate		4.6	5.2			
<b>TIPs Securities</b>	14.0 mil	-1.9	-0.9	--	--	--
BarclaysUS Tips		-3.5	-2.4			
<b>International Index</b>	5.0 mil	-21.1	-43.8	--	--	--
Custom Index		-20.9	-43.3	--	--	--
<b>Boston Company SMID Growth</b>	0.1 mil	--	--	--	--	--
Custom Index		--	--	--	--	--
<b>Boston Company SMID Value</b>	0.1 mil	--	--	--	--	--
Custom Index		--	--	--	--	--
<b>Pyramis Select International</b>	21.5 mil	--	--	--	--	--
Custom Index		--	--	--	--	--
<b>CalPERS Target Conservative</b>	20.3 mil	--	--	--	--	--
Custom Index		--	--	--	--	--
<b>CalPERS Target Moderate</b>	71.9 mil	--	--	--	--	--
Custom Index		--	--	--	--	--
<b>Boston Company SMID Growth</b>	0.1 mil	--	--	--	--	--
Custom Index		--	--	--	--	--





	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
<b>CalPERS Target Aggressive</b> <i>SIP Aggressive Policy</i>	\$26.9mil	-.-	-.-	-.-	-.-	-.-
		-.-	-.-	-.-	-.-	-.-
<b>CalPERS Target Income Fund</b> <i>SIP Income Policy</i>	\$2.6mil	-.-	-.-	-.-	-.-	-.-
		-.-	-.-	-.-	-.-	-.-
<b>CalPERS Target 2005 Fund</b> <i>SIP 2005 Policy</i>	\$0.1 mil	-.-	-.-	-.-	-.-	-.-
		-.-	-.-	-.-	-.-	-.-
<b>CalPERS Target 2010 Fund</b> <i>SIP 2010 Policy</i>	\$5.4 mil	-.-	-.-	-.-	-.-	-.-
		-.-	-.-	-.-	-.-	-.-
<b>CalPERS Target 2015 Fund</b> <i>SIP 2015 Policy</i>	\$0.4 mil	-.-	-.-	-.-	-.-	-.-
		-.-	-.-	-.-	-.-	-.-
<b>CalPERS Target 2020 Fund</b> <i>SIP 2020 Policy</i>	\$6.3 mil	-.-	-.-	-.-	-.-	-.-
		-.-	-.-	-.-	-.-	-.-
<b>CalPERS Target 2025 Fund</b> <i>SIP 2025 Policy</i>	\$0.2 mil	-.-	-.-	-.-	-.-	-.-
		-.-	-.-	-.-	-.-	-.-
<b>CalPERS Target 2025 Fund</b> <i>SIP 2025 Policy</i>	\$0.2 mil	-.-	-.-	-.-	-.-	-.-
		-.-	-.-	-.-	-.-	-.-
<b>CalPERS Target 2030 Fund</b> <i>SIP 2030 Policy</i>	\$2.8 mil	-.-	-.-	-.-	-.-	-.-
		-.-	-.-	-.-	-.-	-.-
<b>CalPERS Target 2035 Fund</b> <i>SIP 2035 Policy</i>	\$0.1 mil	-.-	-.-	-.-	-.-	-.-
		-.-	-.-	-.-	-.-	-.-
<b>CalPERS Target 2040 Fund</b> <i>SIP 2040 Policy</i>	\$1.6 mil	-.-	-.-	-.-	-.-	-.-
		-.-	-.-	-.-	-.-	-.-
<b>CalPERS Target 2045 Fund</b> <i>SIP 2045 Policy</i>	\$0.0 mil	-.-	-.-	-.-	-.-	-.-
		-.-	-.-	-.-	-.-	-.-
<b>CalPERS Target 2050 Fund</b> <i>SIP 2050 Policy</i>	\$0.0 mil	-.-	-.-	-.-	-.-	-.-
		-.-	-.-	-.-	-.-	-.-

## **APPENDIX for Supplemental**



**CalPERS 457 Program Custom Funds for the City of Anaheim**  
**Periods Ended December 31, 2008**

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
<b>Stable Fixed Income Fund</b>	10.8 mil	0.9%	3.6%	4.2%	4.1%	4.7%
<i>Barclays Government 1-3</i>		3.0	6.7	6.0	4.1	4.8
<b>Conservative Asset Allocation</b>	0.1 mil	0.8	-6.6	-.	-.	-.
<i>SSgA Income and Growth index</i>		-6.7	-14.2	-.	-.	-.
<b>Moderate Asset Allocation</b>	0.2 mil	-11.5	-21.9	-.	-.	-.
<i>SSgA Balanced Growth Index</i>		-12.0	-23.0	-.	-.	-.
<b>Aggressive Asset Allocation</b>	0.0 mil	-3.1	-18.6	-.	-.	-.
<i>SSgA Growth Index</i>		-17.2	-31.1	-.	-.	-.
<b>CalPERS S&amp;P 500 Index Fund</b>	4.3 mil	-21.7	-36.8	-8.2	-2.1	-1.4
<i>S&amp;P 500</i>		-21.9	-37.0	-8.4	-2.2	-1.4
<b>Small/Mid Equity Index</b>	1.7 mil	-26.3	-36.9	-.	-.	-.
<i>Russell 2500</i>		-26.3	-36.8	-.	-.	-.
<b>Total Return Bond Fund</b>	1.3 mil	2.0	-0.1	-.	-.	-.
<i>Barclays Bond</i>		4.6	5.2	-.	-.	-.
<b>TIPS Securities</b>	0.3 mil	-1.9	-0.9	-.	-.	-.
<i>Barclays US TIPS</i>		-3.5	-2.4	-.	-.	-.
<b>SSgA Age Based Income Fund</b>	1.8 mil	-7.4	-13.2	-0.5		
<i>Benchmark</i>		-7.5	-13.1	-0.2		
<b>SSgA Age Based 2010</b>	2.2 mil	-7.8	-17.1	-1.5	-.	-.
<i>Benchmark</i>		-8.4	-17.6	-1.5	-.	-.
<b>SSgA Age Based 2020</b>	1.4 mil	-13.0	-25.5	-3.7	-.	-.
<i>Benchmark</i>		-13.6	-26.1	-3.6	-.	-.
<b>SSgA Age Based 2030</b>	0.6 mil	-17.0	-31.2	-5.5	-.	-.
<i>Benchmark</i>		-17.4	-31.6	-5.4	-.	-.
<b>SSgA Age Based 2040</b>	0.2 mil	-19.2	-34.0	-6.2	-.	-.
<i>Benchmark</i>		-19.3	-34.2	-6.0	-.	-.
<b>International Index</b>	0.4 mil	-21.1	-43.8	-.	-.	-.
<i>FTSE Developed World Ex-US</i>		-20.9	-43.3	-.	-.	-.
<b>SSgA International Alpha Select</b>	1.1 mil	-20.0	-42.2	-.	-.	-.
<i>Benchmark</i>		-20.0	-43.4			



	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
<b>Alliance Bernstein Large Cap</b>	0.4 mil	-18.2	-41.3	-.-	-.-	-.-
<i>Russell 1000 Value</i>		-22.2	-36.9	-.-	-.-	-.-
<b>Turner Large Cap Growth</b>	1.6 mil	-25.2	-48.4	-.-	-.-	-.-
<i>Russell 1000 Growth</i>		-22.8	-38.4	-.-	-.-	-.-
<b>Mid Cap Equity</b>	0.3 mil	-23.8	-36.5	-8.7	-.-	-.-
<i>Russell Mid Cap Index</i>		-27.3	-41.5	-10.7	-.-	-.-
<b>Mid Cap Select</b>	0.3 mil	-25.1	-43.4	-8.9	-.-	-.-
<i>Russell Mid Cap Index</i>		-27.3	-41.5	-10.7	-.-	-.-
<b>Small Cap Growth Fund</b>	2.1 mil	-29.4	-40.9	-9.9	-.-	-.-
<i>Russell 2000 Growth</i>		-27.5	-38.5	-9.3	-.-	-.-
<b>Passive Bond Market Index</b>	0.5 mil	4.6	5.5	5.5	-.-	-.-
<i>Barclays Aggregate Index</i>		4.6	5.2	5.5	-.-	-.-

## **APPENDIX for PERF**



## External Manager Performance Review Domestic Equity - Core

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
<b>Active External Mainstream Mgrs</b>	<b>0.9</b>	<b>-23.9%</b>	<b>-43.9%</b>	<b>-11.2%</b>	<b>-3.6%</b>	<b>-0.4%</b>	<b>6/98</b>
<b>Domestic External Core</b>							
Piedmont Large Cap Core (MDP II)	<b>0.1</b>	-21.1%	-37.6%	-.%	-.%	-21.1%	3/07
Custom Benchmark		-22.1%	-37.3%	-.%	-.%	-21.3%	
Value Added		1.0%	-0.3%	-.%	-.%	0.2%	
Performance Objective		-21.9%	-36.3%	-.%	-.%	-20.3%	
Value Added		0.8%	-1.3%	-.%	-.%	-0.8%	
Smith Asset Large Cap (MDP)	<b>0.1</b>	-24.1%	-40.8%	-9.0%	-0.5%	-0.5%	12/03
Custom Benchmark		-22.1%	-37.3%	-8.5%	-2.3%	-2.3%	
Value Added		-2.0%	-3.5%	-0.5%	1.8%	1.8%	
Performance Objective		-21.6%	-35.3%	-6.5%	-0.3%	-0.3%	
Value Added		-2.5%	-5.5%	-2.5%	-0.2%	-0.2%	

## Domestic Equity – Long/Short

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
<b>Long/Short</b>	<b>1.4</b>	<b>-21.3%</b>	<b>-36.7%</b>	<b>-.%</b>	<b>-.%</b>	<b>-28.4%</b>	<b>6/07</b>
<b>Long/Short Funds</b>							
Analytic Investors	0.3	-23.4%	-40.1%	-.%	-.%	-30.0%	6/07
Russell 1000 Ex-Tobacco, Ex-REIT		-22.6%	-37.9%	-.%	-.%	-27.8%	
Value Added		-0.8%	-2.2%	-.%	-.%	-2.2%	
Performance Objective		-22.4%	-36.9%	-.%	-.%	-26.8%	
Value Added		-1.1%	-3.2%	-.%	-.%	-3.2%	
First Quadrant	0.3	-20.7%	-.%	-.%	-.%	-28.3%	3/08
Benchmark		-22.6%	-.%	-.%	-.%	-31.3%	
Value Added		1.9%	-.%	-.%	-.%	3.0%	
Performance Objective		-22.1%	-.%	-.%	-.%	-29.8%	
Value Added		1.4%	-.%	-.%	-.%	1.5%	
JP Morgan	0.4	-20.4%	-.%	-.%	-.%	-28.0%	3/08
Benchmark		-22.1%	-.%	-.%	-.%	-30.7%	
Value Added		1.7%	-.%	-.%	-.%	2.7%	
Performance Objective		-21.4%	-.%	-.%	-.%	-28.5%	
Value Added		1.0%	-.%	-.%	-.%	0.4%	
Quantitative Long/Short	0.4	-20.5%	-34.5%	-.%	-.%	-26.3%	6/07
Russell 1000 Ex-Tobacco, Ex-REIT		-22.6%	-37.9%	-.%	-.%	-27.8%	
Value Added		2.1%	3.4%	-.%	-.%	1.5%	
Performance Objective		-22.0%	-35.4%	-.%	-.%	-25.3%	
Value Added		1.5%	0.9%	-.%	-.%	-1.0%	



## External Manager Performance Review (continued)

### Domestic Equity – Growth

Active External Mgrs	Market Value 0.9	Qtr -23.9%	1 Year -43.9%	3 Year -11.2%	5 Year -3.6%	Incept. -0.4%	Date 6/98
<b>Domestic External Growth</b>							
Marvin & Palmer Large Cap Growth	<b>0.2</b>	-23.1%	-45.8%	-.%	-.%	-17.1%	12/06
<i>Custom Benchmark</i>		-23.1%	-38.8%	-.%	-.%	-17.3%	
<i>Value Added</i>		0.0%	-7.0%	-.%	-.%	0.2%	
<i>Performance Objective</i>		-22.7%	-37.3%	-.%	-.%	-15.8%	
<i>Value Added</i>		-0.4%	-8.5%	-.%	-.%	-1.3%	
Rigel - Large Growth (MDP)	<b>0.1</b>	-25.0%	-43.7%	-11.8%	-2.9%	-2.9%	12/03
<i>Custom Benchmark</i>		-23.1%	-38.8%	-9.3%	-3.5%	-3.5%	
<i>Value Added</i>		-1.9%	-4.9%	-2.5%	0.6%	0.6%	
<i>Performance Objective</i>		-12.1%	-36.8%	-7.3%	-1.5%	-1.5%	
<i>Value Added</i>		-12.9%	-6.9%	-4.5%	-1.4%	-1.4%	
Redwood Large Growth (MDP II)	<b>0.1</b>	-28.7%	-.%	-.%	-.%	-36.6%	3/08
<i>Custom Benchmark</i>		-23.1%	-.%	-.%	-.%	-31.8%	
<i>Value Added</i>		-5.6%	-.%	-.%	-.%	-4.8%	
<i>Performance Objective</i>		-22.9%	-.%	-.%	-.%	-31.1%	
<i>Value Added</i>		-5.9%	-.%	-.%	-.%	-5.6%	
Stux (MDP)	<b>0.2</b>	-24.4%	-39.1%	-9.1%	-.%	-3.1%	3/04
<i>Custom Benchmark</i>		-22.6%	-37.9%	-8.7%	-.%	-2.1%	
<i>Value Added</i>		-1.8%	-1.2%	-0.4%	-.%	-1.0%	
<i>Performance Objective</i>		-22.2%	-36.4%	-7.2%	-.%	-0.6%	
<i>Value Added</i>		-2.2%	-2.7%	-1.9%	-.%	-2.5%	
Turner Large Cap Growth	<b>0.3</b>	-25.5%	-47.4%	-.%	-.%	-23.1%	3/07
<i>Custom Benchmark</i>		-23.1%	-38.8%	-.%	-.%	-19.8%	
<i>Value Added</i>		-2.4%	-8.6%	-.%	-.%	-3.3%	
<i>Performance Objective</i>		-22.7%	-37.3%	-.%	-.%	-18.3%	
<i>Value Added</i>		-2.8%	-10.1%	-.%	-.%	-4.8%	



## External Manager Performance Review (continued)

### Domestic Equity – Value

Active External Mainstream Mgrs	Market Value 0.9	Qtr -23.9%	1 Year -43.9%	3 Year -11.2%	5 Year -3.6%	Incept. -0.4%	Date 6/98
<b>Domestic External Value</b>							
Alliance Bernstein	<b>0.1</b>	-25.7%	-47.6%	-14.6%	-4.6%	1.5%	9/04
<i>Custom Benchmark</i>		-22.2%	-37.1%	-8.8%	-0.9%	1.1%	
<i>Value Added</i>		-3.5%	-10.5%	-5.8%	-3.7%	0.4%	
<i>Performance Objective</i>		-21.9%	-35.8%	-7.5%	0.4%	2.4%	
<i>Value Added</i>		-3.8%	-11.8%	-7.1%	-5.0%	-0.9%	
Denali Advisors (MDP)	<b>0.0</b>	-20.0%	-38.1%	-8.1%	0.0%	-0.1%	6/01
<i>Custom Benchmark</i>		-22.2%	-37.1%	-7.8%	-0.5%	0.4%	
<i>Value Added</i>		2.2%	-1.0%	-0.3%	0.5%	-0.5%	
<i>Performance Objective</i>		-21.7%	-35.1%	-5.8%	1.5%	2.4%	
<i>Value Added</i>		1.7%	-3.0%	-2.3%	-1.5%	-2.5%	
Denali Mid Value	<b>0.1</b>	-24.2%	-41.0%	-.%	-.%	-36.0%	9/07
<i>Custom Benchmark</i>		-27.4%	-39.0%	-.%	-.%	-34.3%	
<i>Value Added</i>		3.2%	-2.0%	-.%	-.%	-1.7%	
Pzena	<b>0.1</b>	-25.2%	-42.8%	-15.5%	-4.8%	4.6%	9/00
<i>Custom Benchmark</i>		-22.2%	-37.1%	-8.9%	-0.5%	3.4%	
<i>Value Added</i>		-3.0%	-5.7%	-6.6%	-4.3%	1.2%	
<i>Performance Objective</i>		-21.9%	-35.8%	-7.6%	0.8%	4.7%	
<i>Value Added</i>		-3.3%	-7.0%	-7.9%	-5.6%	-0.1%	
Shenandoah (MDP)	<b>0.1</b>	-25.9%	-38.7%	-9.4%	-0.6%	2.2%	3/01
<i>Custom Benchmark</i>		-27.4%	-41.8%	-11.3%	-1.8%	2.2%	
<i>Value Added</i>		1.5%	3.1%	1.9%	1.2%	0.0%	
<i>Performance Objective</i>		-26.9%	-39.8%	-9.3%	0.2%	4.2%	
<i>Value Added</i>		1.0%	1.1%	-0.1%	-0.8%	-2.0%	
Smith Asset Small Cap (MDP)	<b>0.0</b>	-30.3%	-43.2%	-13.9%	-3.1%	-3.1%	12/03
<i>Custom Benchmark</i>		-26.3%	-37.1%	-9.1%	-1.5%	-1.5%	
<i>Value Added</i>		-4.0%	-6.1%	-4.8%	-1.6%	-1.6%	
<i>Performance Objective</i>		-25.7%	-34.6%	-6.6%	1.0%	1.0%	
<i>Value Added</i>		-4.6%	-8.6%	-7.3%	-4.1%	-4.1%	





## External Manager Performance Review (continued) Domestic Equity – Enhanced

	<u>Market</u> <u>Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
<b>Total Domestic Ext. Enhanced</b>	<b>0.8</b>	<b>-21.5%</b>	<b>-36.1%</b>	<b>-9.2%</b>	<b>-.%</b>	<b>-3.3%</b>	<b>9/04</b>
Golden Capital	<b>0.2</b>	-20.2%	-34.5%	-.%	-.%	-19.2%	3/07
<i>Custom Benchmark</i>		-22.1%	-37.3%	-.%	-.%	-21.3%	
<i>Value Added</i>		1.9%	2.8%	-.%	-.%	2.1%	
<i>Performance Objective</i>		-21.9%	-36.3%	-.%	-.%	-20.3%	
<i>Value Added</i>		1.7%	1.8%	-.%	-.%	1.1%	
INTECH	<b>0.2</b>	-22.2%	-37.3%	-8.8%	-.%	-2.4%	9/04
<i>Custom Benchmark</i>		-22.6%	-37.9%	-8.9%	-.%	-3.0%	
<i>Value Added</i>		0.4%	0.6%	0.1%	-.%	0.6%	
<i>Performance Objective</i>		-22.4%	-36.9%	-7.9%	-.%	-2.0%	
<i>Value Added</i>		0.2%	-0.4%	-0.9%	-.%	-0.4%	
T. Rowe Price	<b>0.4</b>	-21.8%	-36.2%	-.%	-.%	-9.9%	3/06
<i>Custom Benchmark</i>		-22.1%	-37.3%	-.%	-.%	-14.4%	
<i>Value Added</i>		0.3%	1.1%	-.%	-.%	4.5%	
<i>Performance Objective</i>		-21.8%	-36.1%	-.%	-.%	-13.2%	
<i>Value Added</i>		0.0%	-0.1%	-.%	-.%	3.3%	



## External Manager Performance Review (continued)

### Domestic Equity – MDP <sup>74</sup>

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
<b>Total Domestic MDP</b>	<b>0.7</b>	<b>-24.6%</b>	<b>-40.6%</b>	<b>-10.0%</b>	<b>-2.4%</b>	<b>-2.0%</b>	<b>12/00</b>
<b>Total Domestic MDP II</b>	<b>0.5</b>	<b>-26.2%</b>	<b>-41.7%</b>	<b>-.%</b>	<b>-.%</b>	<b>-24.1%</b>	<b>3/07</b>
Denali Advisors (MDP)	<b>0.0</b>	-20.0%	-38.1%	-8.1%	0.0%	-0.1%	6/01
<i>Custom Benchmark</i>		-22.2%	-37.1%	-7.8%	-0.5%	0.4%	
<i>Value Added</i>		2.2%	-1.0%	-0.3%	0.5%	-0.5%	
<i>Performance Objective</i>		-21.7%	-35.1%	-5.8%	1.5%	2.4%	
<i>Value Added</i>		1.7%	-3.0%	-2.3%	-1.5%	-2.5%	
Piedmont (MDP II)	<b>0.1</b>	-21.1%	-37.6%	-.%	-.%	-21.1%	3/07
<i>Custom Benchmark</i>		-22.1%	-37.3%	-.%	-.%	-21.3%	
<i>Value Added</i>		1.0%	-0.3%	-.%	-.%	0.2%	
<i>Performance Objective</i>		-21.9%	-36.3%	-.%	-.%	-20.3%	
<i>Value Added</i>		0.8%	-1.3%	-.%	-.%	-0.8%	
Quotient Small Core (MDP II)	<b>0.0</b>	-29.4%	-.%	-.%	-.%	-35.8%	3/08
<i>Custom Benchmark</i>		-26.1%	-.%	-.%	-.%	-26.5%	
<i>Value Added</i>		-3.3%	-.%	-.%	-.%	-9.3%	
Quotient Large Core (MDP II)	<b>0.1</b>	-23.4%	-.%	-.%	-.%	-33.1%	3/08
<i>Custom Benchmark</i>		-22.6%	-.%	-.%	-.%	-31.3%	
<i>Value Added</i>		-0.8%	-.%	-.%	-.%	-1.8%	

<sup>74</sup>The MDP managers are listed by style elsewhere in this appendix.



## External Manager Performance Review (continued)

### Domestic Equity – MDP <sup>74</sup>

	<b>Market Value</b>	<b>Qtr</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>Incept.</b>	<b>Date</b>
<b>Total Domestic MDP</b>	<b>0.7</b>	<b>-24.7%</b>	<b>-40.6%</b>	<b>-10.0%</b>	<b>-2.4%</b>	<b>-2.0%</b>	<b>12/00</b>
<b>Total Domestic MDP II</b>	<b>0.5</b>	<b>-26.2%</b>	<b>-41.7%</b>	<b>-.%</b>	<b>-.%</b>	<b>-24.1%</b>	<b>3/07</b>
Redwood Large Growth (MDP II)	<b>0.1</b>	-28.7%	-.%	-.%	-.%	-36.6%	3/08
<i>Custom Benchmark</i>		-23.1%	-.%	-.%	-.%	-31.8%	
<i>Value Added</i>		-5.6%	-.%	-.%	-.%	-4.8%	
Rigel - Large Growth (MDP)	<b>0.1</b>	-25.0%	-43.7%	-11.8%	-2.9%	-2.9%	12/03
<i>Custom Benchmark</i>		-23.1%	-38.8%	-9.3%	-3.5%	-3.5%	
<i>Value Added</i>		-1.9%	-4.9%	-2.5%	0.6%	0.6%	
<i>Performance Objective</i>		-12.1%	-36.8%	-7.3%	-1.5%	-1.5%	
<i>Value Added</i>		-12.9%	-6.9%	-4.5%	-1.4%	-1.4%	
Shenandoah (MDP)	<b>0.1</b>	-25.9%	-38.7%	-9.4%	-0.6%	2.2%	3/01
<i>Custom Benchmark</i>		-27.4%	-41.8%	-11.3%	-1.8%	2.2%	
<i>Value Added</i>		1.5%	3.1%	1.9%	1.2%	0.0%	
<i>Performance Objective</i>		-26.9%	-39.8%	-9.3%	0.2%	4.2%	
<i>Value Added</i>		1.0%	1.1%	-0.1%	-0.8%	-2.0%	
Smith Asset Large Cap (MDP)	<b>0.1</b>	-24.1%	-40.8%	-9.0%	-0.5%	-0.5%	12/03
<i>Custom Benchmark</i>		-22.1%	-37.3%	-8.5%	-2.3%	-2.3%	
<i>Value Added</i>		-2.0%	-3.5%	-0.5%	1.8%	1.8%	
<i>Performance Objective</i>		-21.6%	-35.3%	-6.5%	-0.3%	-0.3%	
<i>Value Added</i>		-2.5%	-5.5%	-2.5%	-0.2%	-0.2%	
Smith Asset Small Cap (MDP)	<b>0.1</b>	-30.3%	-43.2%	-13.9%	-3.1%	-3.1%	12/03
<i>Custom Benchmark</i>		-26.3%	-37.1%	-9.1%	-1.5%	-1.5%	
<i>Value Added</i>		-4.0%	-6.1%	-4.8%	-1.6%	-1.6%	
<i>Performance Objective</i>		-25.7%	-34.6%	-6.6%	1.0%	1.0%	
<i>Value Added</i>		-4.6%	-8.6%	-7.3%	-4.1%	-4.1%	
Stux (MDP)	<b>0.2</b>	-24.4%	-39.1%	-9.1%	-.%	-3.1%	3/04
<i>Custom Benchmark</i>		-22.6%	-37.9%	-8.7%	-.%	-2.1%	
<i>Value Added</i>		-1.8%	-1.2%	-0.4%	-.%	-1.0%	
<i>Performance Objective</i>		-22.2%	-36.4%	-7.2%	-.%	-0.6%	
<i>Value Added</i>		-2.2%	-2.7%	-1.9%	-.%	-2.5%	

<sup>74</sup> The MDP managers are listed by style elsewhere in this appendix.



## External Manager Performance Review (continued)

### Domestic Equity – FOF

	Market Value	Qtr	1 Year	3 Year	5 Year	Incept.	Date
<b>FIS Fund of Funds</b>	<b>0.2</b>	<b>-23.2%</b>	<b>-.%</b>	<b>-.%</b>	<b>-.%</b>	<b>-31.0%</b>	<b>3/08</b>
Ah Lisanti Small Cap Growth	0.0	-26.0%	-.%	-.%	-.%	-31.8%	3/08
Custom Benchmark		-27.5%	-.%	-.%	-.%	-29.5%	
Value Added		1.5%	-.%	-.%	-.%	-2.3%	
Atlanta Life Large Growth	0.0	-22.1%	-.%	-.%	-.%	-22.1%	9/08
Custom Benchmark		-23.1%	-.%	-.%	-.%	-23.1%	
Value Added		1.0%	-.%	-.%	-.%	1.0%	
Atlanta Large Value	0.0	-19.2%	-.%	-.%	-.%	-27.8%	3/08
Custom Benchmark		-22.2%	-.%	-.%	-.%	-31.0%	
Value Added		3.0%	-.%	-.%	-.%	3.2%	
Ativo International	0.0	-24.8%	-.%	-.%	-.%	-24.8%	9/08
Custom Benchmark		-22.3%	-.%	-.%	-.%	-22.3%	
Value Added		-2.5%	-.%	-.%	-.%	-2.5%	
Bedlam International	0.0	-15.1%	-.%	-.%	-.%	-15.1%	9/08
Custom Benchmark		-22.3%	-.%	-.%	-.%	-22.3%	
Value Added		7.2%	-.%	-.%	-.%	7.2%	
Lombardia Small Value	0.0	-27.3%	-.%	-.%	-.%	-27.3%	9/08
Custom Benchmark		-24.9%	-.%	-.%	-.%	-24.9%	
Value Added		-2.4%	-.%	-.%	-.%	-2.4%	
Moody Aldrich All Cap Value	0.0	-24.0%	-.%	-.%	-.%	-37.5%	3/08
Custom Benchmark		-22.5%	-.%	-.%	-.%	-30.4%	
Value Added		-1.5%	-.%	-.%	-.%	-7.1%	
Mastrapasqua Large Growth	0.0	-23.2%	-.%	-.%	-.%	-29.2%	3/08
Custom Benchmark		-23.1%	-.%	-.%	-.%	-31.8%	
Value Added		-0.1%	-.%	-.%	-.%	2.6%	
Oakbrook Mid Cap Core	0.0	-26.6%	-.%	-.%	-.%	-35.0%	3/08
Custom Benchmark		-27.4%	-.%	-.%	-.%	-35.2%	
Value Added		0.8%	-.%	-.%	-.%	0.2%	
Oakbrook Large Value	0.0	-22.5%	-.%	-.%	-.%	-22.5%	9/08
Custom Benchmark		-22.2%	-.%	-.%	-.%	-22.2%	
Value Added		-0.3%	-.%	-.%	-.%	-0.3%	
Paradigm Alpha Max Large Value	0.0	-19.4%	-.%	-.%	-.%	-28.5%	3/08
Custom Benchmark		-22.2%	-.%	-.%	-.%	-31.0%	
Value Added		2.8%	-.%	-.%	-.%	2.5%	
Rushmore ADR	0.0	-25.7%	-.%	-.%	-.%	-25.7%	9/08
Custom Benchmark		-22.3%	-.%	-.%	-.%	-22.3%	
Value Added		-3.4%	-.%	-.%	-.%	-3.4%	
Thomas White International	0.0	-20.5%	-.%	-.%	-.%	-20.5%	9/08
Custom Benchmark		-22.3%	-.%	-.%	-.%	-22.3%	
Value Added		1.8%	-.%	-.%	-.%	1.8%	
DSM Large Growth	0.0	-26.6%	-.%	-.%	-.%	-31.5%	3/08
Custom Benchmark		-23.1%	-.%	-.%	-.%	-31.8%	
Value Added		-3.5%	-.%	-.%	-.%	0.3%	



## External Manager Performance Review (continued)

### Domestic Equity – FOF \*

	Market Value	Qtr	1 Year	3 Year	5 Year	Incept.	Date
<b>Leading Edge Fund of Funds</b>	<b>0.2</b>	<b>-25.4%</b>	<b>-.%</b>	<b>-.%</b>	<b>-.%</b>	<b>-30.9%</b>	<b>3/08</b>
Credo Mid Growth	<b>0.0</b>	-31.3%	-.%	-.%	-.%	-38.7%	3/08
Custom Benchmark		-27.4%	-.%	-.%	-.%	-37.5%	
Value Added		-3.9%	-.%	-.%	-.%	-1.2%	
Logan Large Growth	<b>0.0</b>	-29.3%	-.%	-.%	-.%	-41.6%	3/08
Custom Benchmark		-23.1%	-.%	-.%	-.%	-31.8%	
Value Added		-6.2%	-.%	-.%	-.%	-9.8%	
Markston Large Growth	<b>0.0</b>	-19.6%	-.%	-.%	-.%	-22.1%	3/08
Custom Benchmark		-22.1%	-.%	-.%	-.%	-30.7%	
Value Added		2.5%	-.%	-.%	-.%	8.6%	
Mindshare Small Growth	<b>0.0</b>	-29.2%	-.%	-.%	-.%	-30.5%	3/08
Custom Benchmark		-27.5%	-.%	-.%	-.%	-29.5%	
Value Added		-1.7%	-.%	-.%	-.%	-1.0%	
NMF Small Value	<b>0.0</b>	-28.1%	-.%	-.%	-.%	-28.1%	9/08
Custom Benchmark		-24.9%	-.%	-.%	-.%	-24.9%	
Value Added		-3.2%	-.%	-.%	-.%	-3.2%	
Redwood Large Growth-LEIA	<b>0.0</b>	-28.6%	-.%	-.%	-.%	-37.0%	3/08
Custom Benchmark		-23.1%	-.%	-.%	-.%	-31.8%	
Value Added		-5.5%	-.%	-.%	-.%	-5.2%	
TIS Small Cap	<b>0.0</b>	-32.6%	-.%	-.%	-.%	-32.6%	9/08
Custom Benchmark		-26.1%	-.%	-.%	-.%	-26.1%	
Value Added		-6.5%	-.%	-.%	-.%	-6.5%	
Cupps Small Growth	<b>0.0</b>	-23.8%	-.%	-.%	-.%	-27.1%	3/08
Custom Benchmark		-27.5%	-.%	-.%	-.%	-29.5%	
Value Added		3.7%	-.%	-.%	-.%	2.4%	
Phocas Small Value	<b>0.0</b>	-19.6%	-.%	-.%	-.%	-18.5%	3/08
Custom Benchmark		-24.9%	-.%	-.%	-.%	-23.9%	
Value Added		5.3%	-.%	-.%	-.%	5.4%	
Westwood*	<b>0.0</b>	-.%	-.%	-.%	-.%	-.%	12/08
Custom Benchmark		-.%	-.%	-.%	-.%	-.%	
Value Added		-.%	-.%	-.%	-.%	-.%	
Performance Objective		-.%	-.%	-.%	-.%	-.%	
Value Added		-.%	-.%	-.%	-.%	-.%	

\* Westwood is an emerging



## External Manager Performance Review (continued)

### Domestic Equity – Corporate Governance

	Market Value	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept</u>	<u>Date</u>
<b>Total Domestic Corporate Governance</b>	<b>1.6</b>	<b>-26.6%</b>	<b>-35.8%</b>	<b>-12.5%</b>	<b>-2.3%</b>	<b>-10.7%</b>	<b>12/98</b>
Blum Strategic Partners III	<b>0.0</b>	-20.9%	-43.0%	-13.4%	-.%	-11.3%	9/05
<i>Custom Benchmark</i>		1.9%	8.0%	8.0%	-.%	8.0%	
<i>Value Added</i>		-22.8%	-51.0%	-21.4%	-.%	-19.3%	
Blum Strategic Partners II	<b>0.0</b>	-52.0%	-66.8%	-.%	-.%	-57.4%	6/07
<i>Custom Benchmark</i>		1.9%	8.0%	-.%	-.%	8.0%	
<i>Value Added</i>		-53.9%	-74.8%	-.%	-.%	-65.4%	
Blum Strategic Partners IV	<b>0.2</b>	-14.8%	-48.7%	-.%	-.%	-48.7%	12/07
<i>Custom Benchmark</i>		1.9%	8.0%	-.%	-.%	8.0%	
<i>Value Added</i>		-12.9%	-40.7%	-.%	-.%	-40.7%	
Breeden Partners	<b>0.3</b>	-40.0%	-36.0%	-.%	-.%	-14.7%	6/06
<i>Custom Benchmark</i>		-21.9%	-37.0%	-.%	-.%	-11.2%	
<i>Value Added</i>		-18.1%	1.0%	-.%	-.%	-3.5%	
New Mountain Capital	<b>0.2</b>	-17.3%	-27.6%	-8.8%	-.%	-8.8%	12/05
<i>Custom Benchmark</i>		-21.9%	-37.0%	-8.4%	-.%	-8.4%	
<i>Value Added</i>		4.6%	9.4%	-0.4%	-.%	-0.4%	
Internal New Mountain Capital	<b>0.1</b>	-23.7%	-31.6%	-.%	-.%	-9.1%	12/06
<i>Custom Benchmark</i>		-21.9%	-37.0%	-.%	-.%	-18.5%	
<i>Value Added</i>		-1.8%	5.4%	-.%	-.%	9.4%	
Relational Investors	<b>0.5</b>	-27.7%	-41.0%	-16.6%	-5.8%	8.8%	12/98
<i>Custom Benchmark</i>		-22.0%	-37.0%	-8.3%	-2.2%	-1.4%	
<i>Value Added</i>		-5.7%	-4.0%	-8.3%	-3.6%	10.2%	
Relational Midcap	<b>0.1</b>	-29.9%	-.%	-.%	-.%	-29.9%	9/08
<i>Custom Benchmark</i>		-25.6%	-.%	-.%	-.%	-25.6%	
<i>Value Added</i>		-4.3%	-.%	-.%	-.%	-4.3%	
Internal Relational	<b>0.2</b>	-10.5%	-14.8%	0.8%	11.4%	14.8%	12/02
<i>Custom Benchmark</i>		-22.0%	-37.0%	-8.5%	-1.9%	4.1%	
<i>Value Added</i>		11.5%	22.2%	9.3%	13.3%	10.7%	
Shamrock Partners	<b>0.1</b>	-24.7%	-34.6%	-15.6%	-.%	-6.9%	3/05
<i>Custom Benchmark</i>		-26.1%	-33.8%	-8.3%	-.%	-4.2%	
<i>Value Added</i>		1.4%	-0.8%	-7.3%	-.%	-2.7%	



## External Manager Performance Review (continued)

### RM ARS–Fund of Funds

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>
<b>Total RM ARS Program</b>	<b>6.4</b>	<b>-9.1%</b>	<b>-19.5%</b>	<b>0.0%</b>	<b>3.5%</b>
47 Degrees North Capital Fund of Emerging Funds	<b>0.1</b>	-8.2%	-15.0%	-.%	-.%
Ermitage European Fund of Funds	<b>0.1</b>	2.2%	1.8%	-.%	-.%
Europanel European Fund of Funds	<b>0.2</b>	0.2%	-0.4%	-.%	-.%
KBC Asian Fund of Funds	<b>0.2</b>	-4.7%	-11.8%	-0.7%	-.%
PAAMCO Fund of Emerging Funds	<b>0.1</b>	-10.3%	-18.6%	-.%	-.%
Rock Creek fund of Emerging Funds	<b>0.1</b>	-3.2%	-10.7%	-.%	-.%
SPARX Asian Fund of Funds	<b>0.1</b>	0.7%	-7.1%	-.%	-.%
UBS European Fund of Funds	<b>0.2</b>	-4.5%	-14.2%	-.%	-.%
Vision Asian Fund of Funds	<b>0.2</b>	-0.2%	-5.1%	4.7%	-.%

### Domestic Equity – Environmental

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
<b>Total Environmental</b>	<b>0.2</b>	<b>-21.1%</b>	<b>-36.2%</b>	<b>-9.3%</b>	<b>-.%</b>	<b>-5.6%</b>	<b>3/05</b>
AXA Rosenberg	<b>0.1</b>	-20.8%	-36.4%	-.%	-.%	-10.4%	3/06
Custom Benchmark		-22.6%	-37.9%	-.%	-.%	-14.5%	
Value Added		1.8%	1.5%	-.%	-.%	4.1%	
Performance Objective		-22.1%	-35.9%	-.%	-.%	-12.5%	
Value Added		1.3%	-0.5%	-.%	-.%	2.1%	
New Amsterdam Partners	<b>0.1</b>	-22.7%	-36.4%	-.%	-.%	-11.9%	3/06
Custom Benchmark		-22.6%	-37.9%	-.%	-.%	-14.5%	
Value Added		-0.1%	1.5%	-.%	-.%	2.6%	
Performance Objective		-21.1%	-36.4%	-.%	-.%	-13.0%	
Value Added		-1.6%	0.0%	-.%	-.%	1.1%	
SSgA Environmental	<b>0.1</b>	-19.9%	-35.8%	-.%	-.%	-11.3%	6/06
Custom Benchmark		-22.1%	-37.3%	-.%	-.%	-11.2%	
Value Added		2.2%	1.5%	-.%	-.%	-0.1%	



## External Manager Performance Review (continued)

### International Equity – Core ACWI

<b>Int'l Active Mainstream</b>	<b>Market Value 4.0</b>	<b>Qtr -23.0%</b>	<b>1 Year -47.0%</b>	<b>3 Year -8.0%</b>	<b>5 Year 1.9%</b>	<b>Incept. 4.6%</b>	<b>Date 6/89</b>
<b>Int'l External Core</b>							
Acadian Asset Management	<b>0.4</b>	-27.1%	-51.6%	-10.6%	-.%	-10.6%	12/05
<i>Custom Benchmark</i>		-22.3%	-45.3%	-6.6%	-.%	-6.6%	
<i>Value Added</i>		-4.8%	-6.3%	-4.0%	-.%	-4.0%	
<i>Performance Objective</i>		-21.8%	-43.3%	-4.6%	-.%	-4.6%	
<i>Value Added</i>		-5.3%	-8.3%	-6.0%	-.%	-6.0%	
Arrowstreet (Mainstream)	<b>0.7</b>	-18.5%	-40.2%	-3.2%	5.6%	11.9%	3/03
<i>Custom Benchmark</i>		-22.3%	-45.3%	-6.6%	2.8%	10.2%	
<i>Value Added</i>		3.8%	5.1%	3.4%	2.8%	1.7%	
<i>Performance Objective</i>		-21.8%	-43.3%	-4.6%	4.8%	12.2%	
<i>Value Added</i>		3.3%	3.1%	1.4%	0.8%	-0.3%	
Arrowstreet (MDP)	<b>0.0</b>	-6.3%	-34.8%	-0.6%	7.6%	3.4%	6/00
<i>Custom Benchmark</i>		-22.3%	-45.3%	-6.6%	2.8%	-0.4%	
<i>Value Added</i>		16.0%	10.5%	6.0%	4.8%	3.8%	
<i>Performance Objective</i>		-21.8%	-43.3%	-4.6%	4.9%	1.6%	
<i>Value Added</i>		15.5%	8.5%	4.0%	2.7%	1.8%	
AQR Capital Management	<b>0.3</b>	-20.4%	-44.3%	-8.7%	-.%	-8.7%	12/05
<i>Custom Benchmark</i>		-20.9%	-43.5%	-6.6%	-.%	-6.6%	
<i>Value Added</i>		0.5%	-0.8%	-2.1%	-.%	-2.1%	
<i>Performance Objective</i>		-20.4%	-41.5%	-4.6%	-.%	-4.6%	
<i>Value Added</i>		0.0%	-2.8%	-4.1%	-.%	-4.1%	
Fidelity	<b>0.5</b>	-21.7%	-.%	-.%	-.%	-38.6%	3/08
<i>Custom Benchmark</i>		-20.9%	-.%	-.%	-.%	-38.1%	
<i>Value Added</i>		-0.8%	-.%	-.%	-.%	-0.5%	
<i>Performance Objective</i>		-20.5%	-.%	-.%	-.%	-37.0%	
<i>Value Added</i>		-1.2%	-.%	-.%	-.%	-1.6%	
QMA International	<b>0.3</b>	-22.4%	-48.1%	-.%	-.%	-13.0%	3/06
<i>Custom Benchmark</i>		-20.9%	-43.5%	-.%	-.%	-10.3%	
<i>Value Added</i>		-1.5%	-4.6%	-.%	-.%	-2.7%	
<i>Performance Objective</i>		-20.7%	-42.5%	-.%	-.%	-9.3%	
<i>Value Added</i>		-1.7%	-5.6%	-.%	-.%	-3.7%	





### External Manager Performance Review (continued) International Equity – Core Europe

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
<b>Int'l Active Mainstream</b>	<b>4.0</b>	<b>-23.0%</b>	<b>-47.0%</b>	<b>-8.0%</b>	<b>1.9%</b>	<b>4.6%</b>	<b>6/89</b>
<b>Int'l External Core Europe</b>							
Sourcecap Intl	<b>0.2</b>	-.-%	-.-%	-.-%	-.-%	-.-%	3/01
Custom Benchmark		-.-%	-.-%	-.-%	-.-%	-.-%	
Value Added		-.-%	-.-%	-.-%	-.-%	-.-%	
Performance Objective		-.-%	-.-%	-.-%	-.-%	-.-%	
Value Added							
AXA Rosenberg	<b>0.4</b>	-24.3%	-49.5%	-8.9%	1.3%	2.2%	3/01
Custom Benchmark		-22.9%	-46.2%	-6.1%	2.0%	2.3%	
Value Added		-1.4%	-3.3%	-2.8%	-0.7%	-0.1%	
Performance Objective		-22.4%	-44.2%	-4.1%	4.0%	4.3%	
Value Added		-1.9%	-5.3%	-4.8%	-2.7%	-2.1%	

### International Equity – Environmental

### External Manager Performance Review (continued) International Equity – MDP<sup>75</sup>

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
<b>Total Int'l MDP</b>	<b>0.1</b>	<b>-17.0%</b>	<b>-36.8%</b>	<b>-3.6%</b>	<b>3.2%</b>	<b>-0.5%</b>	<b>6/00</b>
Arrowstreet (MDP)	<b>0.0</b>	-6.3%	-34.8%	-0.6%	7.6%	3.4%	6/00
Custom Benchmark		-22.3%	-45.3%	-6.6%	2.8%	-0.4%	
Value Added		16.0%	10.5%	6.0%	4.8%	3.8%	
Performance Objective		-21.8%	-43.3%	-4.6%	4.9%	1.6%	
Value Added		15.5%	8.5%	4.0%	2.7%	1.8%	
Pyrford (MDP)	<b>0.1</b>	-17.1%	-38.3%	-5.0%	2.4%	3.6%	12/01
Custom Benchmark		-20.9%	-43.5%	-6.6%	2.5%	4.3%	
Value Added		3.8%	5.2%	1.6%	-0.1%	-0.7%	
Performance Objective		-20.4%	-41.5%	-4.6%	4.5%	6.3%	
Value Added		3.3%	3.2%	-0.4%	-2.1%	-2.7%	

<sup>75</sup> The MDP managers are also listed by style elsewhere in this appendix.



## External Manager Performance Review (continued)

### International Equity – Growth & Value

<b>Int'l Active Mainstream</b>	<b>Market Value 4.0</b>	<b>Qtr -23.0%</b>	<b>1 Year -47.0%</b>	<b>3 Year -8.0%</b>	<b>5 Year 1.9%</b>	<b>Incept. 4.6%</b>	<b>Date 6/89</b>
<b>Int'l External Growth</b>							
Alliance Large Cap Growth	<b>0.4</b>	-25.9%	-51.5%	-11.4%	-.%	-9.0%	9/05
Custom Benchmark		-22.3%	-45.3%	-6.6%	-.%	-4.9%	
Value Added		-3.6%	-6.2%	-4.8%	-.%	-4.1%	
Performance Objective		-21.8%	-43.3%	-4.6%	-.%	-2.9%	
Value Added		-4.1%	-8.2%	-6.8%	-.%	-6.1%	
Baillie Gifford	<b>0.6</b>	-25.8%	-45.7%	-5.0%	5.2%	4.2%	6/01
Custom Benchmark		-22.3%	-45.3%	-6.6%	2.8%	3.2%	
Value Added		-3.5%	-0.4%	1.6%	2.4%	1.0%	
Performance Objective		-21.8%	-43.3%	-4.6%	1.8%	5.2%	
Value Added		-4.0%	-2.4%	-0.4%	3.4%	-1.0%	
<b>Int'l External Value ACWI</b>							
Alliance Strategic Value	<b>0.3</b>	-28.6%	-53.3%	-12.3%	-.%	-10.0%	9/05
Custom Benchmark		-22.3%	-45.3%	-6.6%	-.%	-4.9%	
Value Added		-6.3%	-8.0%	-5.7%	-.%	-5.1%	
Performance Objective		-21.8%	-43.3%	-4.6%	-.%	-2.9%	
Value Added		-6.8%	-10.0%	-7.7%	-.%	-7.1%	
Grantham, Mayo, Van Otterloo	<b>0.5</b>	-17.4%	-42.5%	-5.9%	3.4%	5.6%	6/01
Custom Benchmark		-22.3%	-45.3%	-6.6%	2.8%	3.2%	
Value Added		4.9%	2.8%	0.7%	0.6%	2.4%	
Performance Objective		-21.7%	-42.8%	-4.1%	5.2%	5.7%	
Value Added		4.3%	0.3%	-1.8%	-1.8%	-0.1%	
Pyrford (MDP)	<b>0.1</b>	-17.1%	-38.3%	-5.0%	2.4%	3.6%	12/01
Custom Benchmark		-20.9%	-43.5%	-6.6%	2.5%	4.3%	
Value Added		3.8%	5.2%	1.6%	-0.1%	-0.7%	
Performance Objective		-20.4%	-41.5%	-4.6%	4.5%	6.3%	
Value Added		3.3%	3.2%	-0.4%	-2.1%	-2.7%	
<b>Int'l External Value Pacific</b>							
Nomura	<b>0.3</b>	-18.3%	-43.7%	-8.6%	2.5%	2.7%	9/89
Custom Benchmark		-16.8%	-41.7%	-8.2%	2.7%	-0.8%	
Value Added		-1.5%	-2.0%	-0.4%	-0.2%	3.5%	
Performance Objective		-16.3%	-39.7%	-6.2%	4.7%	1.2%	
Value Added		-2.0%	-4.0%	-2.4%	-2.2%	1.5%	



## International Equity – Emerging Markets

Int'l Emerging Markets	Market Value 2.9	Qtr -30.2%	1 Year -52.4%	3 Year -6.8%	5 Year 8.5%	Incept. 15.9%	Date 9/02
AllianceBernstein	0.4	-34.8%	-57.9%	-11.4%	6.1%	15.3%	9/02
Custom Benchmark		-28.4%	-52.9%	-6.0%	7.9%	14.8%	
Value Added		-6.4%	-5.0%	-5.4%	-1.8%	0.5%	
Performance Objective		-27.8%	-50.5%	-3.5%	10.4%	17.3%	
Value Added		-7.0%	-7.4%	-7.9%	-4.3%	-2.0%	
Batterymarch	0.6	-32.3%	-56.6%	-.%	-.%	-35.7%	6/07
Custom Benchmark		-28.4%	-52.9%	-.%	-.%	-33.7%	
Value Added		-3.9%	-3.7%	-.%	-.%	-2.0%	
Performance Objective		-27.9%	-50.9%	-.%	-.%	-31.7%	
Value Added		-28.4%	-52.9%	-.%	-.%	-33.7%	
DFA	0.4	-27.2%	-48.6%	-3.2%	10.0%	18.0%	9/02
Custom Benchmark		-28.4%	-52.9%	-6.0%	7.9%	14.8%	
Value Added		1.2%	4.3%	2.8%	2.1%	3.2%	
Performance Objective		-27.9%	-50.9%	-4.0%	9.9%	16.8%	
Value Added		0.7%	2.3%	0.8%	0.1%	1.2%	
Genesis	0.8	-26.7%	-46.3%	-4.6%	10.4%	15.2%	9/02
Custom Benchmark		-28.4%	-52.9%	-6.0%	7.9%	14.8%	
Value Added		1.7%	6.6%	1.4%	2.5%	0.4%	
Performance Objective		-17.8%	-50.4%	-3.5%	10.4%	17.3%	
Value Added		-8.9%	4.1%	-1.1%	0.0%	-2.1%	
Lazard	0.5	-29.5%	-47.6%	-.%	-.%	-38.7%	9/07
Custom Benchmark		-28.4%	-52.9%	-.%	-.%	-43.6%	
Value Added		-1.1%	5.3%	-.%	-.%	4.9%	
Performance Objective		-27.9%	-50.9%	-.%	-.%	-41.6%	
Value Added		-1.6%	3.3%	-.%	-.%	2.9%	
Pictet	0.3	-29.0%	-55.4%	-.%	-.%	-35.3%	6/07
Custom Benchmark		-28.4%	-52.9%	-.%	-.%	-33.7%	
Value Added		-0.6%	-2.5%	-.%	-.%	-1.6%	
Performance Objective		-27.9%	-50.9%	-.%	-.%	-31.7%	
Value Added		-1.1%	-4.5%	-.%	-.%	-3.6%	



## External Manager Performance Review (continued)

### International Equity – Corporate Governance

	<u>Market</u> <u>Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Date</u>
<b>Total Int'l Corporate Governance</b>	<b>1.8</b>	<b>-16.3%</b>	<b>-41.7%</b>	<b>-10.9%</b>	<b>0.5%</b>	<b>12/98</b>
Governance for Owners	<b>0.1</b>	-24.7%	-53.1%	-.%	-.%	12/06
<i>Custom Benchmark</i>		-23.7%	-47.0%	-.%	-.%	
<i>Value Added</i>		-1.0%	-6.1%	-.%	-.%	
Internal Governance for Owners	<b>0.2</b>	-9.0%	-45.9%	-.%	-.%	9/07
<i>Custom Benchmark</i>		-23.7%	-47.0%	-.%	-.%	
<i>Value Added</i>		14.7%	1.1%	-.%	-.%	
Hermes UK Focus	<b>0.0</b>	-31.3%	-53.7%	-15.5%	-6.5%	12/99
<i>Custom Benchmark</i>		-26.5%	-48.5%	-9.8%	-0.6%	
<i>Value Added</i>		-4.8%	-5.2%	-5.7%	-5.9%	
Hermes Europe Focus	<b>0.1</b>	-32.2%	-59.9%	-12.5%	0.9%	9/03
<i>Custom Benchmark</i>		-21.3%	-45.1%	-4.0%	3.7%	
<i>Value Added</i>		-10.9%	-14.8%	-8.5%	-2.8%	
Hermes U.K. Small Cap	<b>0.0</b>	-39.8%	-59.5%	-.%	-.%	9/07
<i>Custom Benchmark</i>		-39.7%	-62.4%	-.%	-.%	
<i>Value Added</i>		-0.1%	2.9%	-.%	-.%	
Knight Vinke	<b>0.2</b>	-21.1%	-34.3%	2.2%	11.3%	12/03
<i>Custom Benchmark</i>		-23.7%	-47.0%	-6.1%	2.2%	
<i>Value Added</i>		2.6%	12.7%	8.3%	9.1%	
Knight Vinke Internal Partners	<b>0.1</b>	-9.9%	-31.0%	-.%	-.%	3/06
<i>Custom Benchmark</i>		-23.7%	-47.0%	-.%	-.%	
<i>Value Added</i>		13.8%	16.0%	-.%	-.%	
Lazard Korea Corp Gov Fund	<b>0.1</b>	-27.4%	-.%	-.%	-.%	3/08
<i>Custom Benchmark</i>		-31.5%	-.%	-.%	-.%	
<i>Value Added</i>		4.1%	-.%	-.%	-.%	
Taiyo Fund	<b>0.5</b>	-14.6%	-37.3%	-13.1%	5.5%	9/03
<i>Custom Benchmark</i>		-21.0%	-41.8%	-19.5%	-3.5%	
<i>Value Added</i>		6.4%	4.5%	6.4%	9.0%	
Taiyo Cypress	<b>0.2</b>	-5.4%	-.%	-.%	-.%	3/08
<i>Custom Benchmark</i>		-21.0%	-.%	-.%	-.%	
<i>Value Added</i>		15.6%	-.%	-.%	-.%	
Taiyo Pearl Fund	<b>0.2</b>	5.3%	-11.3%	-.%	-.%	12/07
<i>Custom Benchmark</i>		0.0%	0.0%	-.%	-.%	
<i>Value Added</i>		5.3%	-11.3%	-.%	-.%	



## External Manager Performance Review (continued)

### Fixed Income – High Yield

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>
<b>Total Fixed Income</b>	<b>44.6</b>	<b>2.3%</b>	<b>-2.8%</b>	<b>3.3%</b>	<b>4.1%</b>	<b>5.5%</b>
<i>Fixed Income Policy Index</i>		6.4%	5.7%	5.8%	5.4%	6.0%
<b>External High Yield*</b>	<b>0.7</b>	<b>-27.0%</b>	<b>-33.8%</b>	<b>-8.2%</b>	<b>-1.3%</b>	<b>-.-%</b>
<b>Highland A &amp; B</b>	<b>0.4</b>	-25.8%	-32.3%	-.-%	-.-%	-.-%
<i>Custom Benchmark</i>		-19.2%	-26.3%	-.-%	-.-%	-.-%
<i>Value Added</i>		-6.6%	-6.0%	-.-%	-.-%	-.-%
<b>Highland A</b>	<b>0.3</b>	-25.2%	-30.9%	-.-%	-.-%	-.-%
<i>Custom Benchmark</i>		-19.2%	-26.3%	-.-%	-.-%	-.-%
<i>Value Added</i>		-6.0%	-4.6%	-.-%	-.-%	-.-%
<b>Highland B</b>	<b>0.1</b>	-27.7%	-37.1%	-.-%	-.-%	-.-%
<i>Custom Benchmark</i>		-19.2%	-26.3%	-.-%	-.-%	-.-%
<i>Value Added</i>		-8.5%	-10.8%	-.-%	-.-%	-.-%
<b>Nomura</b>	<b>0.2</b>	-21.8%	-29.1%	-7.0%	-1.6%	-.-%
<i>Custom Benchmark</i>		-19.2%	-26.3%	-5.9%	-1.1%	-.-%
<i>Value Added</i>		-2.6%	-2.8%	-1.1%	-0.5%	-.-%
<b>PIMCO</b>	<b>0.2</b>	-14.4%	-23.2%	-4.2%	0.0%	-.-%
<i>Custom Benchmark</i>		-19.2%	-26.3%	-5.9%	-1.1%	-.-%
<i>Value Added</i>		4.8%	3.1%	1.7%	1.1%	-.-%

### Fixed Income – MDP

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>
<b>LM Capital</b>	<b>0.2</b>	8.1%	5.9%	6.0%	4.9%	-.-%
<i>Custom Benchmark</i>		5.6%	7.0%	6.2%	5.1%	-.-%
<i>Value Added</i>		2.4%	-1.1%	-0.2%	-0.2%	-.-%
<i>Performance Objective</i>		5.8%	8.0%	7.2%	6.1%	-.-%
<i>Value Added</i>		2.2%	-2.1%	-1.2%	-1.2%	-.-%

\*Portfolio was unitized and is included in multiple plans.



## External Manager Performance Review (continued)

### Fixed Income – External International

	<b>Market Value</b>	<b>Qtr</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>10 Year</b>
<b>Total Fixed Income</b>	<b>44.6</b>	<b>2.3%</b>	<b>-2.8%</b>	<b>3.3%</b>	<b>4.1%</b>	<b>5.5%</b>
<i>Fixed Income Policy Index</i>		<b>6.4%</b>	<b>5.7%</b>	<b>5.8%</b>	<b>5.4%</b>	<b>6.0%</b>
<b>International Fixed Income</b>	<b>4.2</b>	<b>6.4%</b>	<b>5.7%</b>	<b>7.6%</b>	<b>5.1%</b>	<b>4.8%</b>
Alliance Bernstein	<b>1.0</b>	2.8%	-1.1%	-.%	-.%	-.%
<i>Custom Benchmark</i>		8.6%	9.4%	-.%	-.%	-.%
<i>Value Added</i>		-5.8%	-10.5%	-.%	-.%	-.%
<i>Performance Objective</i>		9.0%	10.9%	-.%	-.%	-.%
<i>Value Added</i>		-6.2%	-12.0%	-.%	-.%	-.%
Baring	<b>0.4</b>	5.9%	6.9%	7.9%	4.9%	4.5%
<i>Custom Benchmark</i>		8.6%	9.4%	9.2%	5.9%	5.5%
<i>Value Added</i>		-2.7%	-2.5%	-1.3%	-1.0%	-1.0%
<i>Performance Objective</i>		9.0%	10.9%	10.7%	7.4%	7.0%
<i>Value Added</i>		-3.1%	-4.0%	-2.8%	-2.5%	-2.5%
Mondrian	<b>0.7</b>	7.7%	13.1%	-.%	-.%	-.%
<i>Custom Benchmark</i>		8.6%	9.4%	-.%	-.%	-.%
<i>Value Added</i>		-0.9%	3.7%	-.%	-.%	-.%
<i>Performance Objective</i>		9.0%	10.9%	-.%	-.%	-.%
<i>Value Added</i>		-1.3%	2.2%	-.%	-.%	-.%
PIMCO	<b>1.1</b>	6.3%	4.1%	-.%	-.%	-.%
<i>Custom Benchmark</i>		8.6%	9.4%	-.%	-.%	-.%
<i>Value Added</i>		-2.3%	-5.3%	-.%	-.%	-.%
<i>Performance Objective</i>		9.0%	10.9%	-.%	-.%	-.%
<i>Value Added</i>		-2.7%	-6.8%	-.%	-.%	-.%
Rogge	<b>1.0</b>	9.4%	9.4%	9.2%	6.2%	-.%
<i>Custom Benchmark</i>		8.6%	9.4%	9.2%	5.9%	-.%
<i>Value Added</i>		0.8%	0.0%	0.0%	0.3%	-.%
<i>Performance Objective</i>		9.0%	10.9%	10.7%	7.4%	
<i>Value Added</i>		0.4%	-1.5%	-1.5%	-1.2%	



**External Manager Performance Review (continued)**  
**Fixed Income - Special Investments**

	<b>Market Value</b>	<b>Qtr</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>10 Year</b>
<b>Special Investments</b>	<b>1.1</b>	<b>3.3%</b>	<b>6.3%</b>	<b>6.4%</b>	<b>5.6%</b>	<b>5.6%</b>
Equitable CCMF	0.0	1.0%	6.7%	8.3%	8.3%	8.2%
MHLP-BRS	0.9	2.5%	4.9%	5.9%	5.3%	-.%
U.L.L.I. Co.	0.0	-11.0%	6.6%	12.1%	9.8%	9.0%



## External Manager Performance Review (continued)

### Real Estate

<b>Real Estate REITS</b>	<b>Market Value</b>	<b><u>Qtr</u></b>	<b><u>1 Year</u></b>	<b><u>3 Year</u></b>	<b><u>5 Year</u></b>	<b><u>Incept.</u></b>	<b><u>Date</u></b>
	<b>0.8</b>	<b>-31.2%</b>	<b>-49.3%</b>	<b>-12.4%</b>	<b>0.9%</b>	<b>6.0%</b>	<b>3/02</b>
Morgan Stanley Intl PREES	<b>0.1</b>	-23.3%	-49.1%	-.-%	-.-%	-29.3%	12/06
<i>Custom Benchmark</i>		-26.4%	-52.0%	-.-%	-.-%	-25.2%	
<i>Value Added</i>		3.1%	2.9%	-.-%	-.-%	-4.1%	
Intl Asset Allocation REIT*	<b>0.3</b>	-25.9%	-51.7%	-.-%	-.-%	-15.7%	3/06
<i>Custom Benchmark</i>		-26.4%	-52.0%	-.-%	-.-%	-12.3%	
<i>Value Added</i>		0.5%	0.3%	-.-%	-.-%	-3.4%	
Intl PREES Extended REIT*	<b>0.3</b>	-40.2%	-.-%	-.-%	-.-%	-.-%	12/08
<i>Custom Benchmark</i>		-40.5%	-.-%	-.-%	-.-%	-.-%	
<i>Value Added</i>		0.3%	-.-%	-.-%	-.-%	-.-%	

\*Portfolio were unitized and is included in multiple plans.



## Manager Monitoring

Wilshire will rigorously monitor each of CalPERS' externally-managed investment managers and provide quarterly updates and issues in the Executive Summary.

### **Domestic Equity**

Alliance Bernstein

- The manager has underperformed its benchmark for all time periods with the exception of the since inception period. Wilshire will continue to monitor the manger.

Pzena

- The manager has underperformed its benchmark for almost all time periods with the exception of the current quarter and the since inception period. The manager had had unrewarded sector selection. Wilshire will continue to monitor the manger.

### **Fixed Income**

Nomura

- The manager has underperformed its benchmark for all time periods.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Relational Investors**

**Fourth Quarter 2008**

**Investment Type:** U.S. Corporate Governance Fund

**Inception Date:** March 1996

**Capital Commitment:** \$1 billion

	<u><b>Quarter</b></u>	<u><b>Since Inception</b></u>
<b>Contributed Capital:</b>	\$ 76.0 million	\$3,346.5 million
<b>Distributed Capital:</b>	\$ 15.3 million	\$3,114.6 million

**Market Value (12/31/08):** \$ 521.3 million

**Investment Strategy:**

Relational Investors employs a corporate governance strategy aimed at unlocking intrinsic value in underperforming, publicly traded, U.S. companies. When compared to the broader market and industry peers, these companies typically exhibit inferior performance in one or more of the following areas: operations, financial structure, long-term strategy, corporate governance policies or management. Each investment represents a significant percentage of a particular company's outstanding shares, generally 3-10%. Relational Investors then seeks to maximize investment value by initiating contact with the company's management, board of directors and other shareholders to facilitate change.

**Summary Analysis:**

***Number of Investments: 9***

1. As Relational continues to integrate the team from Credit Suisse and as part of their year-end staff reviews, three associate analysts, one senior analyst, and a member of the client service staff (John Marshall) left the firm in December. The departure of the analysts was expected, as a two to three year turnover is normal. All responsibilities of the analysts and the client service member have been assumed and there are no immediate plans for replacements.
2. On July 3, 2008, Relational launched a new offering that focuses on the middle market companies (market capitalizations of \$1 - \$8 billion). Relational has been successful in this space in the past but targeted larger companies as assets have grown. CalPERS made a \$300 million investment in this fund, an additional \$300 million from another client is in documentation. Additional reporting/analysis on the Mid-Cap fund began last quarter.

**Philosophy/Process:** No material changes.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Relational Investors**

Fourth Quarter 2008

**Performance Analysis:**

Relational's performance trailed during the difficult quarter as the portfolio underperformed the S&P 500 Index. Relational's exits from Sprint/Nextel, Capital One, Schering-Plough, and (soon to be) Santander/Sovereign Bancorp realized a great deal of losses. With the trim to Unum, the exit from Capital one, and the forthcoming exit from Sovereign Bancorp, Relational's exposure to financials has decreased significantly. As a result of Relational's efforts, Baxter has achieved their turnaround goals and Home Depot's focus is back on its core business, while National Semiconductor and Unum are all prime targets for consolidation/acquisition. Relational will continue dialogue with the newer engagements while also at varying stages of due diligence on five additional investments. Wilshire will continue to monitor and provide updates on the fund.

<b>Calendar Year Performance (%)</b>									
<b>As of 12/31/2008</b>									
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Relational	-41.01	-10.01	9.29	9.89	16.49	40.77	0.55	7.89	73.70
Custom S&P 500	-37.01	5.54	15.81	4.89	10.87	28.69	-22.12	-11.88	-9.12
Excess Return	-4.00	-15.55	-6.52	5.00	5.62	12.08	22.67	19.77	82.82

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Relational Investors – Mid Cap**  
Fourth Quarter 2008

**Investment Type:** U.S. Corporate Governance Fund

**Inception Date:** July 2008

**Capital Commitment:** \$300 million

	<u><b>Quarter</b></u>	<u><b>Since Inception</b></u>
<b>Contributed Capital:</b>	\$ 30.7 million	\$ 86.9 million
<b>Distributed Capital:</b>	\$ 11.1 million	\$ 11.1 million

**Market Value (12/31/08):** \$ 53.9 million

**Investment Strategy:**

Relational's process is aimed at improving the performance of portfolio companies in a variety of areas, including operations, financial structure, and overall strategy. Typically, portfolio companies will be fairly mature companies with strong cash flows from underperforming core businesses. Generally, Relational is not looking for "turn around" opportunities. Relational looks to proactively engage each portfolio company to improve performance in the belief that improved corporate performance will result in a higher valuation for the company. RMMF will maintain a concentrated portfolio of 8-12 stocks with no single company will represent more than 25% of the Fund. There are no sector weight targets or limits.

**Summary Analysis:**

***Number of Investments: 5***

1. As Relational continues to integrate the team from Credit Suisse and as part of their year-end staff reviews, three associate analysts, one senior analyst, and a member of the client service staff (John Marshall) left the firm in December. The departure of the analysts was expected, as a two to three year turnover is normal. All responsibilities of the analysts and the client service member have been assumed and there are no immediate plans for replacements.
2. On July 3, 2008, Relational launched a new offering that focuses on the middle market companies (market capitalizations of \$1 - \$8 billion). Relational has been successful in this space in the past but targeted larger companies as assets have grown. CalPERS made a \$300 million investment in this fund, an additional \$300 million from another client is in documentation. Additional reporting/analysis on the Mid-Cap fund began this quarter.

**Philosophy/Process:** No material changes.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Relational Investors – Mid Cap**  
Fourth Quarter 2008

**Performance Analysis:**

Relational is in the beginning stages of building its Mid Cap portfolio. Given the young age of the fund, the manager indicated that it will continue to look for attractive opportunities. Wilshire will continue to monitor the portfolio activities.

<b>Calendar Year Performance (%)</b>	
<b>As of 12/31/2008</b>	
	<b>YTD*</b>
Relational Mid-Cap	-29.93
S&P 400 Mid Cap Index	-25.55
Excess Return	-4.38

\*First full-quarter performance since fund inception

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Hermes Europe Focus**

Fourth Quarter 2008

**Investment Type:** European Corporate Governance Fund

**Inception Date:** August 2003

**Capital Commitment:** \$100 million

	<u>Quarter</u>	<u>Since Inception</u>
<b>Contributed Capital:</b>	\$ 0.0 million	\$ 100.0 million
<b>Distributed Capital:</b>	\$ 0.0 million	\$ 0.0 million

**Market Value (12/31/08):** \$ 114.3 million

**Investment Strategy:**

Hermes Focus Asset Management (HFAM) employs a corporate governance strategy that seeks to unlock intrinsic value in underperforming, medium-to-large capitalization, publicly traded, European ex-U.K. companies. For companies that meet their initial purchase criteria, HFAM identifies areas where value can be improved and recommends strategies for change to the board of directors and company executives. Proposed changes focus on the structure and composition of the board and management, strategic business plans and capital structure. HFAM initially expects to invest in 5-10 companies but intends to be invested in 15 companies as assets grow. Initial positions will range from 1-3% with open market purchases of common stock, however the goal is to have influence over 15-20% of a target company's outstanding shares. All cash balances will be equitized with FTSE Europe ex-U.K. futures.

**Summary Analysis:**

***Number of Investments: 14***

**Organization:** Given the impact of the changed environment on the business since Hermes first announced plans for a reorganization, Hermes has agreed with Focus Fund management, that these plans be put on hold for now. The Focus Funds businesses will remain as 100% owned subsidiaries of Hermes.

As a consequence of the LLP being postponed, John will take over responsibility for the management of Hermes Focus Asset Management Europe Ltd ("HFAME") and become its CEO, with full executive responsibility for the Fund. John will replace Stephan Howaldt (CEO) and Wouter Rosingh (Managing Director) who are leaving Hermes. Bertrand Biragnet (Investment Director) will also be leaving Hermes.

In addition to Paul Harrison's main role as Managing Director of SUKFF, he will become CEO of Hermes Focus Asset Management Ltd, replacing John Leach who retired from Hermes on 31 December 2008.

**Philosophy/Process:** No material changes.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Hermes Europe Focus**  
Fourth Quarter 2008

**Performance Analysis:**

The European Focus Funds severely underperformed the benchmark in the 4<sup>th</sup> quarter of 2008 by -13.8% which brought the full year relative performance to -27.2%. The result of a Hermes analysis was that the deterioration in performance is attributable to a number of related issues:

- Certain stocks particularly affected by the environment: the activist style of investment has been disproportionately hit during recent market conditions and a number of stocks have been marked down substantially, especially in light of the deteriorating macroeconomic expectations.
- Size factor: small and mid cap stocks have been affected more severely than larger cap stocks during the credit crunch.
- Hedge fund selling: share price declines have been further exaggerated as distressed hedge funds have de-leveraged and received calls for redemptions, becoming forced sellers. The overall result is that the portfolio has substantially underperformed versus the benchmark.

	Calendar Year Performance (%)				
	As of 12/31/2008				
	2008	2007	2006	2005	2004
Hermes Europe	-59.89	12.65	48.49	17.08	32.89
FTSE Europe ex-U.K.	-45.10	17.70	36.95	10.95	22.07
Excess Return	-14.79	-5.05	11.54	6.13	10.82

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Hermes UK Small Companies Focus Fund**  
Fourth Quarter 2008

**Investment Type:** U.K. Corporate Governance Fund

**Inception Date:** October 2008

**Capital Commitment:** \$60 million

	<u>Quarter</u>	<u>Since Inception</u>
<b>Contributed Capital:</b>	\$ 0.0 million	\$ 59.9 million
<b>Distributed Capital:</b>	\$ 0.0 million	\$ 0.0 million

**Market Value (12/31/08):** \$ 21.1 million

**Investment Strategy:**

HFAM's strategy is to add value by investing in smaller UK companies that have a significant gap between the current trading price of the company versus its actual value if it were managed properly. HFAM seeks to narrow this value gap by improving the corporate governance, Board members and senior management, capital structure, and overall strategy of these underperforming companies. The Fund expects to have a concentrated portfolio of 12 to 20 companies, with a goal out-performing the FTSE Small Cap (ex-Investment Trusts) Total Return Index by 5% on a three year rolling basis.

**Summary Analysis:**

***Number of Investments: 13***

**Organization:** Given the impact of the changed environment on the business since Hermes first announced plans for a reorganization, Hermes has agreed with Focus Fund management, that these plans be put on hold for now. The Focus Funds businesses will remain as 100% owned subsidiaries of Hermes.

The UKSC team remains largely unaffected by the recent organizational changes although they are still looking to add one additional investment professional to round out the team.

**Philosophy/Process:** No material changes.

**Performance Analysis:**

The UK Small Companies Focus Fund II outperformed its benchmark by 1.5% in the 4<sup>th</sup> quarter of 2008. Of note, the cash position was the largest contributor to this outperformance, accounting for about a third of the positive contributors during Q3.



**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Hermes UK Small Companies Focus Fund**  
Fourth Quarter 2008

**Performance Analysis (Continued):**

Calendar Year Performance (%) As of 12/31/2008		
	2008	2007
Hermes UK Small Co. Focus	-59.46	-12.19
FTSE Small Cap ex-Inv. Trusts	-62.36	-13.85
Excess Return	2.90	1.66

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Taiyo Pacific Partners/WL Ross**

**Fourth Quarter 2008**

**Investment Type:** Japanese Corporate Governance Fund

**Inception Date:** July 2003

**Capital Commitment:** \$500 million

	<u><b>Quarter</b></u>	<u><b>Since Inception</b></u>
<b>Contributed Capital:</b>	\$ 0.0 million	\$ 502.5 million
<b>Distributed Capital:</b>	\$ 0.0 million	\$ 0.0 million

**Market Value (12/31/08):** \$ 465.4 million

**Investment Strategy:**

Taiyo Pacific Partners/WL Ross believe that public equity investors in Japan can be rewarded with superior returns by investing in companies that will implement corporate governance improvements. The investment strategy has two elements. First, identify undervalued stocks utilizing Taiyo's asset value and earnings potential analysis. Second, create valuation improvements by means of a three-phase corporate governance strategy. The three phases are: improving transparency and disclosure, improving corporate profitability, and improving shareholder value. Taiyo proposes to use its own proprietary database to identify target companies. Once identification is made, Taiyo's strategy is to be a constructive shareholder with those companies willing to make corporate governance improvements.

**Summary Analysis:**

***Number of Investments: 16***

**Organization:** No personnel turnover, but the firm is looking to add to both its Director and Associate pool. Five small accounts made redemption from the Taiyo Fund during the quarter, totaling \$14.2 million, or approximately 1.6% of the Fund.

**Philosophy/Process:** No material changes.

**Performance Analysis:**

The Taiyo Fund's fourth quarter time-weighted return of -14.6% outperformed relative to the TOPIX, which returned -21.0%. A large number of the Taiyo Fund's holdings are in the highly cyclical, market sensitive industries. As the world's second largest economy continued to shrink in the face of record decline of exports and output, triggered by a global slowdown, most of these holdings posted large declines during the 4Q. Among the companies whose stock price was significantly sold off were automotive parts supplier NIFCO (-50.9%), precision instrument manufacturer Horiba (-47.6%) and TOPCON (-43.0%). The fund did benefit from its currency exposure, however, as the Japanese Yen had risen sharply against the Dollar during the quarter.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Taiyo Pacific Partners/WL Ross**  
Fourth Quarter 2008

**Performance Analysis (Continued):**

	Calendar Year Performance (%)				
	As of 12/31/2008				
	2008	2007	2006	2005	2004
Taiyo	-37.32	-3.91	9.08	56.46	27.03
Topix Index	-41.77	-12.22	1.90	44.29	11.23
Excess Return	4.45	8.31	7.18	12.17	15.80

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Taiyo Pearl Fund/WL Ross**

Fourth Quarter 2008

**Investment Type:** Japanese Corporate Governance Fund

**Inception Date:** October 2007

**Capital Commitment:** \$200 million

	<u><b>Quarter</b></u>	<u><b>Since Inception</b></u>
<b>Contributed Capital:</b>	\$ 0.0 million	\$ 200.0 million
<b>Distributed Capital:</b>	\$ 0.0 million	\$ 0.0 million

**Market Value (12/31/08):** \$ 188.4 million

**Investment Strategy:**

TPF believes that responsible shareholder influence can unlock the value in Japanese companies, resulting in significant out performance for shareholders. TPF will utilize a friendly relational approach in working with Japanese companies in both public and private equity space to create and/or unlock value. TPF will focus on companies with a market cap of \$50 ~ \$500million. The investment approach will include 1) activist investing in public companies including taking a controlling stake where appropriate (5% or greater in Japanese equities), 2) active investing in attractive public companies (where they will not take a controlling stake holding less than 5%) and 3) active investing in private companies. Taiyo is seeking to achieve a 15% to 20% annualized return on an absolute basis. The portfolio will average about 30 stocks at a time and several private equity transactions.

**Summary Analysis:**

***Number of Investments: 18***

Organization: No personnel turnover, but the firm is looking to add to both its Director and Associate pool. Five small accounts made redemption from the Taiyo Fund during the quarter, totaling \$14.2 million, or approximately 1.6% of the Fund.

Philosophy/Process: No material changes.

**Performance Analysis:**

For the quarter ended December 31, 2008, the Pearl Fund generated a time-weighted return of 5.3%, beating both its stated objective, Absolute Return of 0%, and the TOPIX, which returned -21.0%. Most of the fund's investments held up well relative to the broad market during the turbulent quarter, while the fund's large exposure to less cyclical industries such as pharmaceutical and transportation equipment also was a positive factor. The most notable outperformance came from Pearl's top two holdings, mushroom grower "Jar" and infrastructure maintenance specialist Sho-Bond, which produced good earnings that was well received by investors amidst a bleak economic backdrop. In addition, the continued appreciation of the Japanese Yen against the U.S. Dollar contributed positively to the fund's return as well.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Taiyo Pearl Fund/WL Ross**  
Fourth Quarter 2008

**Performance Analysis (Continued):**

<b>Calendar Year Performance (%)</b> <b>As of 12/31/2008</b>	
	<b>2008</b>
Taiyo Pearl Fund	-11.27
Absolute Return of 0%	0.00
Excess Return	-11.27

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Taiyo Cypress Fund/WL Ross**

Fourth Quarter 2008

**Investment Type:** Japanese Corporate Governance Fund

**Inception Date:** April 2008

**Capital Commitment:** \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
<b>Contributed Capital:</b>	\$ 0.0 million	\$ 200.0 million
<b>Distributed Capital:</b>	\$ 0.0 million	\$ 0.0 million

**Market Value (12/31/08):** \$ 146.7 million

**Investment Strategy:**

*Investment Strategy:* TCF sees considerable un-tapped value in the Japanese stock market. TCF believes that responsible shareholder influence can unlock the value in Japanese companies, resulting in significant outperformance for shareholders. TCF will utilize a friendly relational approach in working with Japanese companies focused on opportunities in both the public and private equity space to create and/or unlock value. TCF will focus on companies with a market cap greater than ¥220 billion. The investment approach will include 1) activist investment in public companies including taking a controlling stake where appropriate (5% or greater in Japanese equities) and 2) active investment in private companies. The portfolio is expected to hold 8-10 publicly traded companies representing no less than 65% of the portfolio, with the remainder of the portfolio to be comprised of private equity.

**Summary Analysis:**

***Number of Investments:* 9**

**Organization:** No personnel turnover, but the firm is looking to add to both its Director and Associate pool. Five small accounts made redemption from the Taiyo Fund during the quarter, totaling \$14.2 million, or approximately 1.6% of the Fund.

**Philosophy/Process:** No material changes.

**Performance Analysis:**

The Cypress Fund generated a time-weighted return of -5.4% for the quarter ending December 31, outperforming relative to its stated benchmark, the TOPIX, which returned -21.0%. Due to the exposure to auto, construction and semiconductors sectors, many of the fund's stocks did not perform well during the fourth quarter. Bigfoot, the apartment construction company that is Cypress Fund's largest holding, produced very good return and was the primary contribution to the fund's relative outperformance.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Taiyo Cypress Fund/WL Ross**  
Fourth Quarter 2008

**Performance Analysis (Continued):**

<b>Calendar Year Performance (%)</b> <b>As of 12/31/2008</b>	
	<b>YTD*</b>
Taiyo Cypress Fund	-22.53
Topix Index	-34.91
Excess Return	12.38

\* Full-quarter performance started 6/30/2008

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Knight Vinke**  
Fourth Quarter 2008

**Investment Type:** European Corporate Governance Fund

**Inception Date:** September 2003

**Capital Commitment:** \$300 million

	<u>Quarter</u>	<u>Since Inception</u>
<b>Contributed Capital:</b>	\$ 11.3 million	\$ 587.3 million
<b>Distributed Capital:</b>	\$ 0.0 million	\$ 481.3 million

**Market Value (12/31/08):** \$ 166.2 million

**Investment Strategy:**

Knight Vinke believes that in the absence of effective corporate governance and a truly independent board, the separation of ownership and management can create the opportunity for management to act in its own self interest rather than that of the shareholders. The strategy looks to identify underperforming stocks of companies that are fundamentally strong where redress of the underperformance is possible in a reasonable amount of time. The firm believes that detailed fundamental analysis can identify underperforming companies that have strong operating businesses, but are in need of a corporate finance solution to a factor or factors that specifically is depressing the share price. To identify such companies the firm uses several sources: its own screening process through market information services such as Bloomberg, their own industry knowledge, outside brokers, other institutional shareholders, other corporations, industry manager who may have recently retired, or corporate finance professionals.

**Summary Analysis:**

***Number of Investments: 7***

Organization: Mr. Trevor Hedden was hired during Q4 2008 as an associate director for fund administration and reporting. He will be deeply involved in implementing a portfolio information system.

One KVIP investor redeemed the entire position of €25 million, effective at the end of 2008 and is considering re-investing through a separate vehicle.

The KV SSP Fund faced redemptions of €34.7 million during the quarter ended December 2008. Additional redemptions for €33.8 million will take affect in the first quarter of 2009. These redemptions have in many cases come from fund-of-funds which are dealing with redemption issues of their own. Additionally, KV has changed the name of SSP Fund to KVIP IV to reflect the fact that these funds invest on a parallel basis.

Philosophy/Process: No material changes.

**Performance Analysis:**

KV outperformed the market during the 4th quarter with an IRR return of -20.92% versus -23.18% for the index, in USD. While the last twelve months have been challenging for many corporate governance managers, KV has provided some protection vs. the benchmark. Since inception performance continues to be strong with KV returning 10.51% vs. -0.83% for the index.



**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Knight Vinke**  
Fourth Quarter 2008

**Performance Analysis (Continued):**

The KVIP funds and IMAs still have significant room for further investment in cases where pricing is attractive. Given the volatile market, Knight Vinke has been patient in selecting opportunities to strengthen its core positions. Long-term KV believes that valuations of the core positions, as well as progress in the current engagement strategies remain on track. Finally, Knight Vinke is also at various stages of research in a number of additional potential investments.

<b>Calendar Year Performance (%)</b>					
<b>As of 12/31/2008</b>					
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Knight Vinke	-34.26	7.42	51.12	28.08	24.73
FTSE All World Europe	-46.99	15.47	35.15	10.81	21.51
Excess Return	<i>12.73</i>	<i>-8.05</i>	<i>15.97</i>	<i>17.27</i>	<i>3.22</i>

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Shamrock Capital**  
Fourth Quarter 2008

**Investment Type:** U.S. Corporate Governance Fund

**Inception Date:** December 2004

**Capital Commitment:** \$200 million

	<u><b>Quarter</b></u>	<u><b>Since Inception</b></u>
<b>Contributed Capital:</b>	\$ 14.6 million	\$ 201.6 million
<b>Distributed Capital:</b>	\$ 4.7 million	\$ 61.6 million

**Market Value (12/31/08):** \$ 92.3 million

**Investment Strategy:**

Shamrock believes that combining a deep value investment orientation with an activist shareholder approach founded upon best governance practices, results in superior returns for long-term investors. They seek to find underperforming but fundamentally sound businesses, where they can substantially improve shareholder value with their application of good governance practice. They choose to look at companies they can purchase at a significant discount (<40%) to the underlying value and find free cash flow available to owners that typically exceed 10%. Once these criteria are met, Shamrock will only invest if they believe they can persuade the Board and/or management to believe in their activist strategy to make fundamental changes to the governance structure and business. After investing, persistence and careful monitoring is the key to unlocking value.

**Summary Analysis:**

**Number of Investments: 11**

Organization: Dennis Johnson, formerly employed by CalPERS, joined the firm and has started to re-work the portfolio. One immediate change has been that Shamrock will not actively join a board unless there are compelling reasons to and Shamrock has put together a database of non-investment team board members. Shamrock has also started comparing its risk characteristics to the Russell 200 Index and was granted permission to invest in companies that have a market cap over \$150 million.

Philosophy/Process: No material changes.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Shamrock Capital**  
Fourth Quarter 2008

**Performance Analysis (Continued):**

Since inception through December 31, 2008, Shamrock's time-weighted performance has trailed its benchmark, but performance for the recent quarter was above the benchmark as Shamrock did not hold any financial companies. During the quarter, Shamrock's performance was helped by two of its holdings: Coinstar and Texas Industries. Coinstar continued to execute on its Redbox strategy and the company's fourth quarter earnings numbers were 2009 guidance was well received. Texas Industries is a recent investment and Shamrock is working with the largest shareholder and the company to eliminate provisions that eliminate a takeover of the company. Wilshire believes Shamrock is looking for an exit strategy for iPass, Jackson Hewitt, and Reddy Ice and encourages Shamrock to divest itself of these names as quickly as possible. The company's Dennis has invested in since he started have performed relatively well.

Calendar Year Performance (%)			
As of 12/31/2008			
	2008	2007	2006
Shamrock	-34.62	-9.39	1.49
Russell 2000	-33.79	-1.57	18.35
Excess Return	-0.83	-7.82	-16.86

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Blum Strategic Partners III**  
Fourth Quarter 2008

**Investment Type:** U.S. Corporate Governance Fund

**Inception Date:** July 2005

**Capital Commitment:** \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
<b>Contributed Capital:</b>	\$ 0.4 million	\$ 123.8 million
<b>Distributed Capital:</b>	\$ 0.0 million	\$ 31.2 million

**Market Value (12/31/08):** \$ 100.3 million

**Investment Strategy:**

Blum believes that its private equity investment approach executed in the small- and mid-cap sectors of the public market results in superior returns for long-term investors. Blum seeks to find undervalued “good businesses”, where it can substantially improve shareholder value by working in partnership with management and Boards of Directors to implement value-enhancing strategies. Blum chooses to look at companies with a 10% cash-on-cash yield combined with a projected 10% growth rate in the free cash flow. Once the criteria are met, Blum will only invest if it believes that management and the Board will be receptive to its suggestions. The benchmark for Blum is an absolute return of 8% per annum.

**Summary Analysis:**

*Number of Investments: 18*

Organization: No material changes.

Philosophy/Process: No material changes.

**Performance Analysis:**

The Strategic Partners Fund III endured another difficult quarter and reported a -20.9% return. While this performance fell behind the 8% objective by a large margin, it was slightly better than the -21.9% return of the S&P 500 Index. Other than the counter-cyclical education investments, most of the fund's public holdings saw their shares fell sharply as investors sold indiscriminately following the implosion of the credit crises in October. While Wilshire is glad to see that the defensive nature of the ITT and Career Education business is being rewarded by investors and providing a boost to Fund III's performance (up 35% and 25% YTD, respectively), it is worth noting that together these two stocks now comprise approx. 40% of the fund. In the mean time, Wilshire will also pay close attention to the real estate exposure, which is represented by CB Richard Ellis Group. As Fund III is now fully committed, how Blum manages to assist CBRE find ways to refinance its short-term obligations in the coming year should have direct implication on the fund's ability to make full recovery on committed capital.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Blum Strategic Partners III**  
Fourth Quarter 2008

**Performance Analysis (Continued):**

<b>Calendar Year Performance (%)</b>			
<b>As of 12/31/2008</b>			
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Blum III	-42.95	3.92	9.46
8% Absolute Return	8.00	8.00	8.00
Excess Return	-50.95	-4.08	1.46

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Blum Strategic Partners IV**  
Fourth Quarter 2008

**Investment Type:** U.S. Corporate Governance Fund

**Inception Date:** December 2007

**Capital Commitment:** \$300 million

	<u>Quarter</u>	<u>Since Inception</u>
<b>Contributed Capital:</b>	\$ 40.6 million	\$ 257.0 million
<b>Distributed Capital:</b>	\$ 0.0 million	\$ 0.0 million

**Market Value (12/31/08):** \$ 166.0 million

**Investment Strategy:**

Blum believes that its private equity investment approach executed in the small- and mid-cap sectors of the public market results in superior returns for long-term investors. Blum seeks to find undervalued “good businesses”, where it can substantially improve shareholder value by working in partnership with management and Boards of Directors to implement value-enhancing strategies. Blum chooses to look at companies with a 10% cash-on-cash yield combined with a projected 10% growth rate in the free cash flow. Once the criteria are met, Blum will only invest if it believes that management and the Board will be receptive to its suggestions. The benchmark for Blum is an absolute return of 8% per annum.

**Summary Analysis:**

***Number of Investments: 18***

Organization: No material changes.

Philosophy/Process: No material changes.

**Performance Analysis:**

Strategic Partners Fund IV's fourth quarter return of -14.8% was better than that of the Fund III, primarily helped by its larger exposure to the Education investments as ITT and Career Education made up of almost 45% of the fund. While the education plays are likely to be a positive contribution to the fund's performance in the near term, Wilshire is cautious about the size of these investments relative to the overall fund. Blum acknowledges this and indicates that they are mindful of its no-more-than-20%-investment (at cost)-in-single-position rule. Most of the fund's remaining established positions invest in companies with healthy balance sheet and should stand to benefit when the economy stabilizes and their values are realized by investors. Wilshire expects to receive more updates from the fund as it draws down capital and execute its public strategic block strategies.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Blum Strategic Partners IV**  
Fourth Quarter 2008

**Performance Analysis (Continued):**

<b>Calendar Year Performance (%)</b>	
<b>As of 12/31/2008</b>	
	<b>2008</b>
Blum IV	-48.67
8% Absolute Return	5.94
Excess Return	-54.61

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**New Mountain Vantage**

**Fourth Quarter 2008**

**Investment Type:** U.S. Corporate Governance Fund

**Inception Date:** January 2006

**Capital Commitment:** \$200 million

	<u><b>Quarter</b></u>	<u><b>Since Inception</b></u>
<b>Contributed Capital:</b>	\$ 0.0 million	\$ 200.0 million
<b>Distributed Capital:</b>	\$ 0.0 million	\$ 0.0 million

**Market Value (12/31/08):** \$ 151.5 million

**Investment Strategy:**

New Mountain's strategy is to proactively identify deeply undervalued companies through intensive research and then to unlock the value of these companies by working with management to improve the businesses for the benefit of all shareholders. New Mountain will pursue this value-added strategy for the many situations where a negotiated purchase of control of a public company is not available, but where New Mountain can acquire public shares in the open market and use its style of active ownership to increase the value of the firm's stock. They begin with a "Top-Down" approach, looking at sectors that have stable demands with high growth potentials. They seek companies where barriers to new entry are high, companies have pricing power, and where free cash flow generation characteristics are strong.

**Summary Analysis:**

***Number of Investments:*** 28

**Organization:** There were no new accounts or personal changes for New Mountain.

**Philosophy/Process:** No material changes.

**Performance Analysis:**

New Mountain outperformed against its index, the S&P 500, for the calendar year and the quarter as its largest holding, National Fuel's stock price depreciated but the energy hedges and the S&P 500 hedges New Mountain outperformed. New Mountain kept the same core line-up of companies and believes its portfolio is well structured to survive a downturn in the US economy. New Mountain has one financial stock, a bank in the Midwest, and said the company did very well and showed a profit because of its conservative nature. New Mountain increased its weight in the government contracting industry saying that SEIC and CACI employ vital defense contractors and port monitors.



**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**New Mountain Vantage**  
Fourth Quarter 2008

**Performance Analysis (Continued):**

Calendar Year Performance (%)			
As of 12/31/2008			
	2008	2007	2006
New Moutain	-27.65	-2.05	
S&P 500	-37.00	5.49	
Excess Return	9.35	-7.54	N.A

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Breeden Partners**

**Fourth Quarter 2008**

**Investment Type:** U.S. Corporate Governance Fund

**Inception Date:** June 2006

**Capital Commitment:** \$500 million

	<u><b>Quarter</b></u>	<u><b>Since Inception</b></u>
<b>Contributed Capital:</b>	\$ 2.0 million	\$ 619.4 million
<b>Distributed Capital:</b>	\$ 0.0 million	\$ 123.5 million

**Market Value (12/31/08):** \$ 307.2 million

**Investment Strategy:**

Breeden's philosophy is to invest in US companies that are experiencing underperformance and diminished valuation due to correctable problem in policy and governance. The Fund will target mid-to-large-cap companies ranging from \$500 million to \$10 billion in market capitalization. The portfolio will be concentrated and will typically hold 8 to 12 positions. The objective of the Fund is to outperform the S&P 500 Index by 10% over the long-term.

**Summary Analysis:**

***Number of Investments: 8***

Organization: Molly Peters joined Breeden in November as a Client Relations Manager to assist in investor relations and marketing. Two junior analysts left the firm due to performance reasons in December; there are currently no plans to replace them as their responsibilities have been assumed by other analysts.

Richard Breeden purchased the ownership equity from two members of Breeden Capital Management (one member left the firm, another for personal reasons).

The Breeden European Capital Management ("Breeden Europe") was established in December 2008 to manage a parallel investment fund, Breeden European Partners (California) LP. CalPERS committed \$300 million to Breeden Europe in December 2008.

Philosophy/Process: No material changes.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Breeden Partners**

Fourth Quarter 2008

**Performance Analysis (Continued):**

The fourth quarter of 2008 was exceptionally difficult for Breeden, especially for their positions in Zale and Helmerich & Payne. Consequently, the manager is extremely active in their engagement with Zale and will continue to look for attractive opportunities and build out the portfolio, especially after trimming its position in A&B. Wilshire will continue to closely monitor the portfolio activities. Breeden has made notable progress in some of their strategies – H&R Block has sold off their brokerage arm while refocusing upon their core business, DST repurchased shares, Hillenbrand is defensive and a good value; however, the macro-economic environment has deeply impacted the retail/consumer-sensitive Zale, and the cutbacks in hospital expenditures have hurt both Steris and Hill-Rom Holdings. DST and HP were also negatively impacted by the environment and will be closely monitored by Breeden for revaluation.

Calendar Year Performance (%)			
As of 12/31/2008			
	2008	2007	2006
Breeden Partners	-35.96	-4.28	
S&P 500	-37.00	5.49	
Excess Return	1.04	-9.77	N.A

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

**Governance for Owners**

Fourth Quarter 2008

**Investment Type:** European Corporate Governance Fund

**Inception Date:** October 2006

**Capital Commitment:** \$300 million

	<u>Quarter</u>	<u>Since Inception</u>
<b>Contributed Capital:</b>	\$ 0.0 million	\$ 300.1 million
<b>Distributed Capital:</b>	\$ 0.0 million	\$ 0.0 million

**Market Value (12/31/08):** \$ 148.3 million

**Investment Strategy:**

GO's philosophy is to invest in fundamentally sound quoted companies in Europe where shares are trading at a discount due to correctable management or strategic issues. GO has a performance objective of five percentage points over the return of the FTSE Developed Europe Total Return Index on an annualized basis. The fund is expected to have 10 to 15 equity positions when it is fully invested with futures used to equitize any meaningful cash balances.

**Summary Analysis:**

***Number of Investments: 10***

Organization: GO launched the fourth GO European Focus Fund on 14th October 2008 and is currently working on investing newly received capital. During the quarter, GO signed a joint venture agreement with Tokio Marine Asset Management (TMAM) in Japan. TMAM now owns 40% of GO Japan KK and GO has launched a Japanese Engagement Consortium with them to drive shareholder value based engagement at Japanese companies.

At the start of 2009, GO recruited two new staff members. Boris Korejtko joined GO as an Investment Analyst for the GO European Focus Fund, having previously worked as an equity analyst for 5 years at WestLB Mellon Asset Management, and Karina Sookun, who joined from HSBC Alternative Investments, strengthens KV marketing and investment administration team as Marketing and Client Services Executive. In addition, GO is continuing the search for an additional senior partner and are pleased with the quality of the candidates we have identified.

Philosophy/Process: No material changes.

**Performance Analysis:**

The fund significantly under-performed the European market for the 4<sup>th</sup> quarter in a row with a return of -23.9% versus -21.9% for the FTSE All World Europe Index. This brought the since inception annualized performance to -29% versus -20% for the index. The value bias inherent in corporate governance investing continued to impact the portfolio during 2008. GO further elaborated that their focus on small and mid cap stocks also detracted from performance as large cap stocks in Europe held up much better during this period. Stock specific factors are discussed in the following section.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Governance for Owners**  
Fourth Quarter 2008

**Performance Analysis (Continued):**

<b>Calendar Year Performance (%)</b>		
<b>As of 12/31/2008</b>		
	<b>2008</b>	<b>2007</b>
Governance for Owners	-53.14	7.06
FTSE All World Europe	-46.99	15.47
Excess Return	-6.15	-8.41

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Lazard Korea Corporate Governance Fund**  
Fourth Quarter 2008

**Investment Type:** Korean Corporate Governance Fund

**Inception Date:** May 2008

**Capital Commitment:** \$100 million

	<u>Quarter</u>	<u>Since Inception</u>
<b>Contributed Capital:</b>	\$ 0.0 million	\$ 100.0 million
<b>Distributed Capital:</b>	\$ 0.0 million	\$ 0.0 million

**Market Value (12/31/08):** \$ 58.1 million

**Investment Strategy:**

The Fund's strategy is to add value by investing in small and mid-sized Korean companies that are undervalued with significant room to improve governance principles and practices. The Fund has a unique and exclusive relationship with the Center for Good Corporate Governance (CGCG), whereby the CGCG provides strategic advice regarding the engagement of a targeted company. Notably, the Fund will pursue its objective through a collaborative discussion between company management, the Fund and other shareholders, rather than a confrontational approach. The Fund feels that the Korean market is particularly well-suited to a corporate governance approach to investing as many companies have poor governance practices and the country trades at a discount to other similar markets as a result.

**Summary Analysis:**

***Number of Investments: 18***

**Organization:** There are no new accounts or personnel turnover to report for the Korean Corporate Governance Fund.

**Philosophy/Process:** No material changes.

**Performance Analysis:**

The Korea Corporate Governance Fund generated a return of -27.4% for the fourth quarter and performed better than the KOSPI, which returned -31.5%. Due to plummeting global demand, many of the fund's industrial and construction holdings posted large negative returns that contributed to the fund's weak absolute performance. The continued depreciation of the Korean Won against the Dollar during the quarter was also a detractor. However, the fund's large exposure to defensive plays such as food ingredient producer Samyang Genex and cable operator Taekwang Industrial, which produced favorable returns, helped drive its relative outperformance.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**CORPORATE GOVERNANCE INVESTMENT PROGRAM**  
**Lazard Korea Corporate Governance Fund**  
Fourth Quarter 2008

**Performance Analysis (Continued):**

<b>Calendar Year Performance (%)</b>	
<b>As of 12/31/2008</b>	
	<b>YTD*</b>
Lazard Korea	-40.83
KOSPI	-48.02
Excess Return	7.19

\* Full-quarter performance started 6/30/2008